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Weekend FT

Inside section II

Monet's cathedral of dreams

Page XVI

Along the Cote d'Azur of the Arctic

Page X

A journey to the heart of Zionism

Page XII

The Possessed

Pyramid scheme shatters Everyman's TV fantasies Russian nightmare, Page 9

FINANCIAL TIMES

Europe's Business Newspaper

WEEKEND JULY 30/JULY 31 1994

Lloyd's likely to scrap three-year accounting period

Lloyd's of London may remove the requirement for the insurance market's underwriting syndicates to report their results over a three-year period. The move should lead to quicker release of profits to both corporate capital and Names, the individuals whose assets support the market.

The practice of three-year accounting is rooted in the origins of Lloyd's, which derived its business from insuring trading ships on their voyages around the world, which usually took three years. Page 6

Kinnock becomes European Commissioner

Former UK Labour party leader Neil Kinnock (left), whose appointment as a British member of the European Commission was confirmed yesterday, is set to take over the opt-out secured by prime minister John Major from the regulations that can be imposed on employers from Brussels. Mr Kinnock's wife, Glenys, was elected to the European parliament last month. Page 6

Rise in Japanese jobless: Figures showing an increase in Japanese unemployment and a sharp fall in the inflation rate provided further evidence of the weakness of the country's economy. Page 3

Two shot dead at abortion clinic: Two people, one a doctor, were shot dead outside a Florida abortion clinic. An anti-abortion protester was arrested. Page 7

Moscow attacks Chechnya leader: The Russian government accused Dzhokar Dudayev, leader of the rebel region of Chechnya, of destabilising the whole of north Caucasus and called on the Chechen people to topple him. Page 7

Terrorist targets identified last year: A UK security report identifying buildings including London's Israeli embassy, which was bombed this week, as potential targets for car-bomb attacks was produced at the end of last year. Page 7

40 hurt in Ulster mortar attack: Forty people, including 38 civilians, were hurt when terrorists fired three mortar bombs at a police station in the centre of Newry, Co Down. Page 7

Spanish general killed: An army general, his driver and a civilian were killed when a car bomb, believed to be the work of Euzko Batasuna separatists, exploded in central Madrid. Page 7

Date set for Simpson trial: A Los Angeles judge set September 20 as the trial date for footballer O.J. Simpson, who has pleaded not guilty to the murders of his ex-wife and her male friend. Page 7

Higher retail income lifts BAA profits: BAA, the former British Airports Authority, raised first-quarter pre-tax profits by 11 per cent to £111m, helped by rapidly increasing retail income. Page 10

Credit Suisse falls 27%: Swiss bank Credit Suisse, flagship of the CS Holding financial services group, reported a 27 per cent fall in interim pre-tax profits to SFr1.76bn (\$1.3bn), caused partly by a slump in international stock and bond markets. Page 11

Copper mine to be world's biggest: The Escondido copper mine in Chile is to be expanded at a cost of \$620m to make it the world's biggest by mid-1996. Page 11

Sapporo Beer ahead 41%: Interim pre-tax profits at Japanese brewer Sapporo Beer rose 41.5 per cent from a year earlier to ¥6.9bn (\$64m), due to a rise in demand. Page 11

First UK lottery draw in November: The UK's first National Lottery draw will take place live on BBC Television on November 19, less than six months after the Camelot consortium was chosen as the lottery's operator. Camelot yesterday unveiled its logo (above) - a smiling hand with crossed fingers. Page 4

Big rise in purchase prices: The prices paid by manufacturers for materials are rising sharply, according to the latest purchasing managers' index, increasing fears that inflation may be set to accelerate. Page 7

Turners stolen: Two paintings by English master William Turner were stolen from a Frankfurt gallery. The pictures, valued at £10m (\$15.5m) each, were on loan from London's Tate Gallery. Page 7

Companies in this issue

Aema	11	John Lusty	10
BAA	10	Kleinwort High Inc	10
BHP	11	Lloyds Bank	10
Beacon Inv Trust	10	Low (Wm)	10
Boverley	10	Morad	10
Chrom Waste Mgmt	11	Morison (Wm)	10
Credit Suisse	11	North of England BS	10
Credit Suisse Bank/Fin	11	Ranson (Wm)	10
Dale Electric Int	10	SCI	10
Electric & General	10	Sainsbury (J)	10
Evans Halshaw	11	Sapporo Beer	11
Fish	10	TI	10
Fominter	10	TT	10
Foundation Health	11	Tesco	10
Great Southern	10	Tottenham Hotspur	10
Green Property	10	WmX Technologies	11
Groupe Bull	11	Whitbread	10
Harrisons Crossfield	10	Wala (V & H)	10
Int'group Healthcare	11	Zettlers	10

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Bank's market dealings spark expectations of half-point increase

Anxiety over rate rise grows

By Philip Coggan and Philip Gawth

Financial markets yesterday signalled their expectation of an imminent rise in UK interest rates. This was based on Bank of England dealings in the money markets which persuaded many traders that a half percentage point increase was likely.

Although the markets found the Bank's dealings confusing, anxiety about a rise in rates prompted selling in the futures market. By the close last night, short sterling, the futures market's medium for speculating on interest rate changes, pointed to short-term rates of over 6 per cent by September compared with current base rates at 5.25 per cent.

The prospect of higher rates bolstered the pound which finished in London at DM2.4413, more than 2 pence up on Thursday's close of DM2.4195.

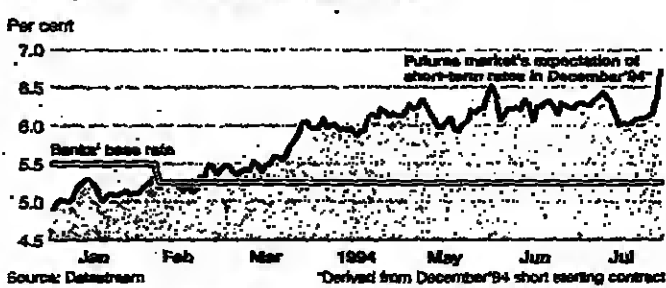
The Bank yesterday accepted

bids for Treasury bills - short-term debt issued by the government - at rates of up to 5.75 per cent, half a point above current base rates. That was interpreted by some traders as a sign that base rates would rise shortly, either on Monday morning or on Tuesday when the Bank publishes its quarterly inflation report.

In its daily operations, however, the Bank dealt at unchanged rates, before and after the Treasury bill auction. These money market activities are the Bank's traditional method of signalling its desired level of base rates.

While some economists now expect base rates to rise by half a point next week, others thought the Bank did not intend to increase rates and had merely miscalculated the market's reaction to the Treasury bill announcement. In the confusion, many talked of "mismanagement" by the Bank.

UK interest rates, present and future



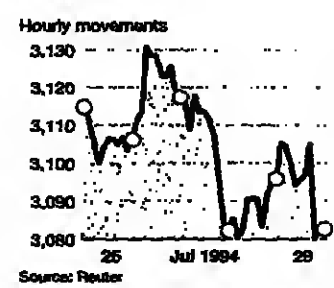
The result of yesterday's auction is that the Bank is paying more to borrow money than it is receiving for lending it, a position which cannot last for an extended period.

Markets were already jittery about a possible base rate rise, with evidence of inflationary pressure in the Confederation of British Industry's quarterly survey, released on Tuesday, and in the purchasing managers' index, announced yesterday.

Mr Kenneth Clarke, the Chancellor, and Mr Eddie George, the Bank's governor, held their monthly monetary meeting on Thursday. Interest rate decisions are taken at the monthly meetings although the timing of the change is left to the Bank. Speculation about rate changes is accordingly at its peak in the days following the meeting.

Trade in short sterling reached

FT-SE 100



more than 210,000 contracts, the highest volume this year. The September contract lost 33 basis points to close at \$3.55.

The FT-SE 100 index fell by 26.2 points at one stage before closing 13.3 points down on the day at 3082.6.

Big increase in purchase index. Page 7

Currencies, Page 13

Lex, Page 24



Silvio Berlusconi (pictured) announced the creation of a special commission to distance his business interests from his role as Italian premier. The move came after Mr Berlusconi's younger brother, Paolo, surrendered to Milan magistrates to answer charges of paying bribes to the financial police. Page 24

Tribunal critical of high pay-outs to forces mothers

By Lisa Wood, Labour Staff

A number of large pay-outs to former servicewomen who were sacked after they became pregnant were "manifestly excessive", the Employment Appeals Tribunal ruled yesterday.

However, the appeals tribunal said most of the seven ex-servicewomen whose cases were taken to appeal by the Ministry of Defence could keep the bulk of their compensation because of the way the Ministry of Defence presented its case. Two women will have to return to industrial tribunals for reassessments.

Mr Justice Morison, tribunal chairman, said: "The large awards, running into many tens of thousands of pounds, seem quite out of proportion to the wrong done."

The MoD, which welcomed yesterday's decision, has already paid out £16m in settlements

since 1990 when the European Court of Justice ruled that the armed forces were not exempt from EC legislation making it illegal to dismiss a woman because she was pregnant.

The Ministry said at the time that pregnant women dismissed since 1978, when the UK government was obliged to have implemented an EU equal treatment directive, were entitled to compensation. Until today's ruling it had claimed it faced bills of up to £100m if the principle of large awards had been upheld.

The level of future awards to ex-servicewomen - dismissed because of pregnancy is now likely to be much lower for the 1,700 outstanding claims.

The seven test cases involved women who lost their jobs between 1978 and 1990 and who received awards of up to £173,000. The awards were made after the

Lloyds up 21% at half-year but rivalry fears hit shares

By John Gapper, Banking Editor

Shares in Lloyds Bank fell sharply yesterday despite a 21 per cent rise in half-year pre-tax profits to £805m. The marking down of the stock reflects concern among investors that clearing banks are starting to compete for business by cutting loan margins and charges.

Lloyds' results reinforced fears that banks are building up more capital than is needed to meet slack demand for loans. Analysts said banks were likely to start reducing charges to attract business in an overcrowded market.

Lloyds' shares fell by 18p to 544p. Other bank shares declined. Lloyds raised its interim dividend by 14 per cent to 7.5p, but the

increase was not as great as some analysts had predicted, given the bank's generation of capital.

Sir Robin Dubs, Lloyds' chairman, said the bank was confident it would succeed with its £1.8bn agreed bid for Cheltenham & Gloucester Building Society. C&G is expected to announce revised terms in mid-August for sharing the cash among its members.

Sir Robin emphasised that the C&G purchase would not be the last acquisition considered by Lloyds. "Just because we are moving towards a satisfactory conclusion with C&G does not mean we are pulling down the shutters," he said.

He said Lloyds would not impose charges on current accounts in credit, although the

decision was not a consequence of the capital build-up. "If one is virtuous to begin with, one does not need even more temptation to be virtuous," he said.

Week loan demand and flat income from charges meant revenue grew only 5 per cent to £1.92bn, against £1.83bn in the first half of 1993.

But the bank's trading surplus rose by 13 per cent to £713m, against £632m, because costs were held down.

Lloyds gained from the improvement in credit quality among UK companies in the first half of the year as the effects of

Continued on Page 24
Future worries affect present, Page 10
Lex, Page 24

STOCK MARKET INDICES			
■ US LUNCHTIME RATES			
Federal Funds	4.3%		
3-mo Treas Bill Yld	4.398%		
■ NORTH SEA OIL (August)			
Brant 15-day (Sep)	\$16.61	(18.11)	
■ GOLD			
New York Comex (Aug)	\$363.0	(384.5)	
London	\$363.9	(387.3)	
■ LONDON MONEY			
3-mo Interbank	5.5%	(5.4%)	
Life long gilt fut	See 101% (Sep101%)		
■ FT-SE 100			
Yield	3.092%	(13.3)	
FT-SE Eurotrack 100	1,397.9	(15.84)	
FT-SE-A All-Share	1,848.74	(0.33%)	
Nikkei	20,448.39	(201.54)	
New York lunchtime		(30.78)	
Dow Jones Ind Ave	\$7,761.58	(4.69)	
S&P Composite	438.69		

CONTENTS			
News	Letters	FT World Activities	Money Markets
International News	Man in the News	Foreign Exchange	Recent Issues
UK News	Companies	Gold Markets	Share Information
Weather	UK	Equity Options	World Commodities
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NEWS: INTERNATIONAL

Stalin's troops looked on with folded arms as 20,000 Poles fought to the death

Heroism and wickedness in Warsaw

Few episodes of the second World War revealed so clearly the depths of human wickedness and the heights of personal and collective heroism as the Warsaw rising, whose 50th anniversary will be commemorated this weekend in the Polish capital.

The rising, 63 days of increasingly desperate street fighting between 150,000 ill-armed volunteers of the Polish Home Army (the AK or Armia Krajowa) and a pitiless Nazi annihilation force, took place while Stalin, whose soldiers were encamped just across the River Vistula, looked on with folded arms, and the western allies were preoccupied with the battle for France.

Walesa has invited Russian and German leaders to commemorate the anniversary of the tragic Warsaw uprising. Anthony Robinson reports

"The decision to launch the rising represents for the Poles the most tragic mistake in their recent history," wrote historian Norman Davies, author of "God's Playground", the most authoritative contemporary history of Poland. Its failure scarred a generation of Poles and set the scene for 45 years of east-west mistrust and the Cold War.

Given this background, the decision of Polish President Lech Walesa to invite the Presidents of re-united Germany and post-communist Russia, as well as representatives of the war time allied powers, to this weekend's ceremonies has been controversial. Intended as a gesture of forgiveness for crimes which Poles will never permit to be forgotten, the Russo-German presence has been fiercely criticized by Mr Walesa's domestic political opponents and nationalist critics.

Mr Roman Herzog, the recently elected German president, accepted under the unfortunate misapprehension that the object of commemoration was an earlier slaughter of the innocents, the desperate Warsaw Ghetto uprising of April 1943 when the last remnants of the Jewish ghetto fought a doomed battle to prevent their transport to the death camps, while Russian President Boris Yeltsin passed the invitation on to lesser officials. Prime minister John Major is representing Britain but US President Bill Clinton, who toured central Europe before the Naples summit, is sending vice president Al Gore.

The international line-up may be tighter and more controversial than



An exhausted Polish combatant in the middle of the failed uprising against the Nazis. Around 20,000 Polish combatants were killed and 225,000 civilians. Some 550,000 survivors were sent to Pruszków concentration camp.

hoped. But nothing can take away from the significance of the event being commemorated.

Five decades ago Soviet forces under General Rokossovski had advanced to the suburbs of Warsaw. German troops under General Erich von dem Bach-Zelewski were evacuating stores and preparing to vacate the city. In his makeshift underground headquarters General Tadeusz Bor-Komorowski, commander of the Polish Home Army and the chief delegate from the Polish government in exile in London, was debating how and when to strike what they hoped would be a decisive blow for liberation.

On the evening of July 29, Moscow Radio broadcast to Warsaw that "the

hour of action has arrived." This apparent invitation to take up arms against the retreating Nazis was accompanied by the first sighting of Soviet T-34 tanks in Praga, a suburb just across the river Vistula from the historic town centre.

The rising began at five o'clock on the afternoon of August 1 and ended two months later with the surrender of the last pockets of Polish resistance. It was followed by the forced evacuation of the surviving population and the systematic destruction of 85 per cent of the city on Hitler's express orders.

The outcome of the unequal battle was never in doubt after the hoped for Soviet intervention failed to materialise and the first four days of fighting

failed to secure the airport, the railway station or the bridges over the Vistula. Hitler, shocked and angered by the failed bomb plot against him a few days earlier, ordered his commanders back to the city to suppress the rising ruthlessly.

Fighting street to street, and cellar to cellar even continued in the sewers which formed the main lines of communication for the beleaguered AK while German ground troops backed by heavy artillery, drive bombers and tanks remorselessly tightened the net. To this day the track of a German "goat" tank lies embedded in the rebuilt walls of St John's cathedral in the heart of the old city where mass will be said on Sunday in memory of those soldiers

and civilians who took part.

The last hope flickered and died on September 18 when a daylight air-drop of food and arms by allied bombers left 90 per cent of the aid in German hands. The bombers were forced to fly to the limits of their range from bases in Italy because Stalin refused to allow them to use airfields in Soviet-occupied territory.

It was a telling omen of things to come, which the allies turned a half-blind eye to, preoccupied as they were with breaking out from the Normandy beachheads and unwilling to "antagonise Uncle Joe", the man whose Red Army had torn the guts out of Hitler's armies in the east.

But the Poles had embarked upon the rising harbouring no illusions. Their aim was to liberate the Polish capital from the Nazis and "to mobilise the entire population spiritually for the struggle against Russia."

For the Poles already knew what being "liberated" by Soviet forces meant. Five years earlier, in September 1939, Poland had been violated by Hitler and Stalin together under the terms of the Molotov-Ribbentrop pact.

Poles, and the large pre-war Jewish population in particular, suffered terribly under Nazi rule. But for non-Jews, political and physical repression by the Soviet secret police, the NKVD, in the Soviet-occupied east of Poland was in many ways worse than that imposed by the Gestapo.

To the Nazis the Poles were simply "Untermenschen" whose ideas and culture were of no interest. For Stalin's commissars, by contrast, Poland's nationalist traditions and "bourgeois" culture were a threat to be eliminated. Hence the cold-blooded murder of thousands of captured Polish officers in Katyn forest, near Smolensk. Hence the mass arrest of Polish intellectuals, priests and teachers and their execution or deportation to Siberia.

The AK's decision to fight for a "Polish solution" to Poland's future was "taken for the most honourable motives by men who had fought selflessly for their country's independence against all comers," writes Professor Davies. But, "the idea that Warsaw could have been held by the AK in the name of the government in exile without a subsequent showdown with the Soviets was belied by all previous experience," he adds.

So it proved. But the tradition of stubborn resistance to foreign occupation embodied by Warsaw's defenders lived on to re-emerge a generation later in the anti-Soviet Solidarity movement. The defeat of 50 years ago turned into the victory of 1989 when Poland became the first of Moscow's satellite states to throw off the Soviet shackles. In so doing Poles started the process which liberated not only central Europe but permitted the re-unification of Germany and the re-emergence of a Russia shorn of its Soviet imperial arrogance. That is the final testament to an immense sacrifice.

INTERNATIONAL NEWS DIGEST

Britain backs Bonn UN role

Britain sees a German seat on the UN Security Council as both desirable and likely, Mr Douglas Hurd, the UK foreign secretary, said yesterday. It was the second time in a week that Mr Hurd has voiced his approval for a more active German role on the world stage. Asked on BBC radio whether Britain would back a proposal to give Germany a permanent Security Council seat, he replied: "Yes, indeed we would." He added that the UK viewed German admission as a probable outcome of forthcoming debates on the UN's future structure.

UK officials said London continued to link German and Japanese admission to the Council with a broader reform of the institution, in which Latin America, Africa and Asia might also demand seats. Mr Hurd told the German magazine *Der Spiegel*, in an interview published this week, that Britain welcomed the prospect of a more decisive role for Germany in international affairs. He said it was "childish twaddle" to imagine that Britain might be jealous of President Bill Clinton's enthusiasm for ties with Germany. *Bruce Clark, London*

EU hits back over fraud claim

The European Commission yesterday hit back at allegations that up to 8 per cent of EU funds was going astray each year amid growing fraud in the Union budget. Responding to a highly critical report by Britain's House of Lords, the Commission said the fraud battle should mainly be fought by member states as they were directly responsible for spending three-quarters of the budget.

The Lords report said that while it was impossible to estimate the scale of fraud within the EU it was at least £2bn-£5bn a year, equivalent to 7-8 per cent of the EU budget. The Commission said it had proof that fraud accounted for 1 per cent of the EU budget. "Nobody knows how much the fraud is. If it's at that level it shows total dereliction of duty by member states," said a Commission spokesman. Brussels yesterday set out a scheme under which people who inform on EU fraud could get up to £10,000 (£7,886) for tip-offs. About £200,000 would be earmarked annually for the scheme. *Emma Tucker, Brussels and Stuart Dalby, London*

Warning on Rwanda refugees

The United Nations' top aid official said yesterday Rwanda could see yet another "world record" refugee exodus when French troops pull out of their south-western security zone next month. Mr Peter Hansen, under-secretary-general for humanitarian affairs, issued the warning on his return from the region, where the UN is already struggling to look after more than 2m refugees. About 1.6m Rwandan Hutus have taken refuge in the safe area set up by France, which says it will withdraw its 2,500 troops by the time its UN mandate expires on August 22. The first French troops left yesterday. "If we have a vacuum and that vacuum would lead to instability, we could see an exodus from that zone into Zaire, where there are already 500,000 to 600,000 refugees in Bukavu and Uvira," Mr Hansen said. In Washington, President Clinton asked Congress to approve \$30m of extra aid. He said the US was "urgently reviewing" whether to open a new airfield in the Rwandan capital, Kigali, to speed aid deliveries. *Reuter, Geneva and Washington*

Bomb attack in Madrid

General Francisco Vegallos, who as director-general of defence policy played a key role in modernisation of Spain's armed forces, was killed yesterday, together with his driver, when a car bomb exploded alongside his car. The blast, in central Madrid, also killed a bystander and severely wounded at least eight others. The attack, which bore the hallmark of ETA, the Basque separatist organisation, came in the midst of a controversial initiative by the new interior and justice minister Mr Juan Alberto Belloch to allow partial freedom to an initial 30 out of more than 500 jailed ETA members serving long sentences. Gen Vegallos, 68, replaced Admiral Faustino Escrigas, who was also killed by ETA, as director general of defence policy, in 1985. Yesterday's attack brought the number of ETA victims this year to nine, five of them military officers. *Tom Burns, Madrid*

Vote to freeze Ukraine sell-off

Ukraine's parliament voted yesterday to freeze the privatisation of state enterprises for six weeks. Deputies voted 180-62 for a resolution that said the system of privatisation was flawed and had to be stopped until the assembly decided which types of property are not to be transferred to private ownership. It ordered the government to draw up a list of enterprises in transport, energy and communication which should not be privatised "because of their national significance" and submit the list for parliament's approval in September. The resolution also ordered a review of the mechanism by which foreign investors participate in privatisation. Deputies were keen to prevent enterprises avoiding the competitive process and buying out their losses from the state for a low price. Reformers, including Mr Volodymyr Kuznetsov, head of President Kuchma's economic service, were opposed to the resolution, and said the process of privatisation could not be stopped. *Foreign Staff, London*

Move for Dutch coalition

The tortuous search for a Dutch government coalition entered a new phase yesterday when Mr Wim Kok, finance minister in the outgoing government, said he would try to form a three-party government of his own Labour party, the right-wing Liberals and the left-of-centre D66. The negotiations, which will begin next week, represent the second attempt to put together a coalition of the three parties since the Christian Democrats suffered an historic defeat in the May general election. The first attempt was scuppered by disagreements over social welfare spending. But the differences between Labour and the Liberals in particular have narrowed after Mr Kok unveiled a proposed government programme on Monday stressing cuts in social spending and promising to boost jobs. All four main parties responded positively to Mr Kok's proposals, but he decided to exclude the Christian Democrats from the negotiations because they opposed maintaining levels of social benefits. *Ronald van de Krol, Amsterdam*

Pergau funds repaid early

Almost half the controversial subsidised loan provided by the UK government for the Malaysian Pergau Dam project has been repaid early. Tenaga Nasional, the Malaysian electricity authority, yesterday repaid £140m of the £306m loan around 10 years ahead of schedule. As a result the UK government will recoup £9.3m of the £235.3m cash costs of subsidising the loan. This represents savings for the government of the "margin" it pays to the commercial banks which administer the loan, according to officials. But Tenaga is continuing to enjoy the full benefit of the UK government subsidy. The UK government has been criticised by MPs for giving too much of its aid budget to the Pergau project and for using the promise of aid to win a substantial defence contract. *Robert Peston, London*

Spanish trawlers end blockade

More than 300 Spanish trawlers yesterday ended a four-day blockade of most north coast domestic ports, as well as of the border town of Hendaye in France. The blockade was to protest against alleged illegal tuna fishing practices by French vessels. The protest, which has severely affected maritime traffic, including tourist-laden ferries, ended after the Madrid government gave assurances it would insist on strict implementation of EU fishing guidelines and closely monitor the quality of fish imported from France. The "tuna war", over French trawlers' use of drift nets to catch tuna which is then exported to Spain, prompted clashes between the two fleets earlier this month. The Spanish trawler fleet, which uses rods to land tuna, claims the French vessels use nets longer than the 2.5km permitted by the EU. *Tom Burns, Madrid*

Clinton faces a fierce attack over Whitewater

By Jurek Martin in Washington

Republicans in the US Senate yesterday launched a series of savage attacks on President Bill Clinton, his administration and even Mr Robert Fiske, the Whitewater special counsel, for failing to come clean on the affair.

Senator Al D'Amato of New York charged that the White House had "concealed, disguised and distorted the truth, all in the service of politics and the president's self-preservation."

He also accused Mr Roger Altman, the deputy treasury secretary, of deliberately misleading Congress last February in testimony about his contacts with White House officials over criminal investigations into Madison Guaranty, the failed Arkansas savings and loan company at the heart of Whitewater. The affair stems from the first family's land and financial dealings in their home state in the 1970s and 1980s.

The hearings of the Senate

banking committee contrasted sharply with those held earlier in the week by its House counterpart, where Congressman Henry Gonzalez, the Democratic chairman, controlled both statements and questions tightly.

Technically on the agenda yesterday was testimony by police and medical officials on the circumstances of the suicide last summer of Mr Vincent Foster, then deputy White House legal counsel. But each member of the committee was permitted a lengthy opening statement before any witnesses were summoned.

Senator Lauch Faircloth of North Carolina, citing old professional contacts between the special counsel and Mr Clinton's legal representatives, accused Mr Fiske of "hiding information that would be embarrassing to the Clintons."

In an interim report, Mr Fiske, a Republican, exonerated administration officials of any criminal wrongdoing in the Madison affair and found that the death of Mr Foster

was a clear case of suicide.

This conclusion was endorsed yesterday by Mr Larry Monroe, an FBI special agent, who testified that forensic and other evidence offered "irrefutable proof" that he had taken his own life and that his depression could not be ascribed to concerns about Whitewater.

Mr Foster's family has bitterly complained at the grief caused by allegations from right-wing talk show hosts concerning his death. It had appealed to the Senate committee not to prolong their agony by airing such conspiracy theories at the hearings.

But Senator D'Amato hinted at further dark conspiracies when it was announced that a park service policeman due to testify yesterday was "out of town."

He did not appear contrite when advised that the policeman would in fact be appearing on Monday.

Democratic senators mostly held the line in defending the administration.

Civil rights group suffers fresh blow

By Jurek Martin

The reputation of one of the oldest and most illustrious US civil rights organisations was further damaged yesterday by details of an out-of-court settlement of sexual harassment charges brought against its director.

According to reports in both the New York Times and the Baltimore Sun, the Rev Benjamin Chavis last year committed the National Association for the Advancement of Coloured People to pay up to \$332,400 in damages without informing the NAACP's board and its legal counsel.

The plaintiff, Ms Mary Stansel, who briefly worked for the organisation last year, is now additionally suing Mr Chavis and the NAACP for breach of part of the out-of-court settlement under which she would be found a job elsewhere paying at least \$80,000 a year.

Several NAACP board members were quoted as saying that they knew nothing of the settlement and subsequent suit

and that nothing was communicated about either at the organisation's annual convention in Chicago earlier this month.

Lawyers for Mr Chavis said he denied the sexual harassment charges and he had reached the settlement under duress and in order to preserve his reputation. Good faith attempts were made to find Ms Stansel another job, but she either failed to turn up for interviews or overstated her qualifications, one said.

Mr Chavis was elected executive director of the 85-year-old NAACP in April last year. He took over an organisation with a membership of only about 500,000, less than half that of 30 years earlier, and with current debts estimated at about \$3m.

It was also deeply split between traditional moderate integrationists and outspoken black nationalists. This came to a head early in June when Mr Chavis invited Rev Louis Farrakhan, militant head of the Nation of Islam, to participate in a "black summit."

US growth 3.7% in 2nd quarter

GDP now 10 per cent higher than at the trough of recession

By Michael Prowse in Washington

The US economy grew at an annualised rate of 3.7 per cent between April and June partly because companies accumulated inventories faster than in previous quarters, the Commerce Department said yesterday.

Bond and share prices rose sharply on Wall Street as traders interpreted the rise in inventories as a sign that growth would decelerate in the second half, reducing the need for further interest rate increases. Consumer spending grew at an annual rate of 1.2 per cent, a third the pace in previous quarters. Many economists, however,

played down the significance of higher inventories and predicted a rebound in consumer spending later this year.

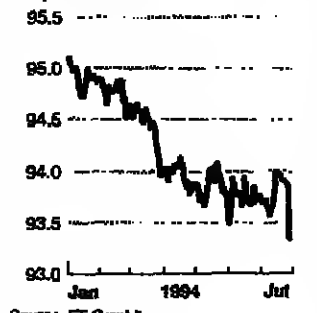
The second quarter gain in output was the 13th consecutive quarter of economic growth following a mild recession in 1990-91. GDP is now nearly 10 per cent higher in real terms than at the trough of the recession.

Data revisions showed growth at annualised rates of 6.3 per cent and 3.3 per cent in the fourth and first quarters respectively, against previous estimates of 7.0 per cent and 3.4 per cent.

Mr John Lipsky, chief economist at Salomon Brothers, the New York brokerage, predicted growth in excess of 3 per cent

Short Sterling

December '94 future sterling contract bid price



Source: FT Graphix

inventories. The Federal Reserve was likely to raise rates by another percentage point to about 5.25 per cent by the end of the year, he said.

Ms Laura Tyson, the chief White House economist, said the figures were consistent with her projections of a 3 per cent rise in both growth and inflation this year.

The gain in inventories was mostly a voluntary adjustment by companies to faster growth.

Inflation was under control, she said. The "fixed price" GDP deflator - a broad gauge of inflation - rose at an annual rate of 2.9 per cent in the second quarter, down from 3.1 per cent in the first three months.

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Japan's jobless rate nears all-time high

By Gerard Baker in Tokyo

Further evidence of the weakness of the Japanese economy emerged yesterday with figures showing an increase in unemployment and a sharp fall in the inflation rate.

Seasonally adjusted unemployment rose by 0.1 per cent to 2.9 per cent in June, according to the government's Management and Co-ordination Agency. The jobless figure has been rising steadily since the recession began three years ago, and now stands just below its all-time high of 3.1 per cent recorded in May 1987.

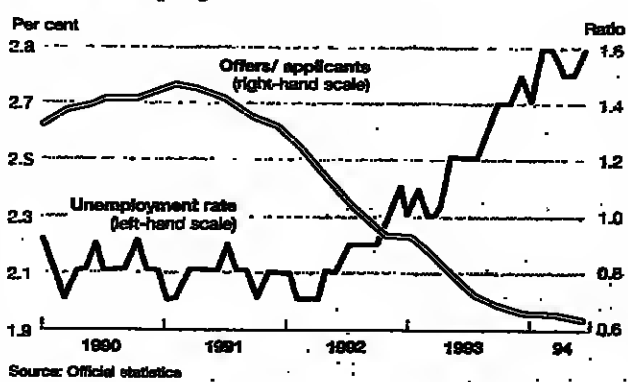
Separate figures released by the labour ministry revealed that the job offers-to-applicants ratio declined further last month to 0.63 per cent, the lowest level in more than seven years. The number of job offers fell in the year to June by 6.5 per cent while the number of applicants rose by 13.8 per cent. Employment fell sharply in all the main sectors of the economy, led by the wholesale, retail, and restaurant sector, with a drop of 170,000 workers from a year ago.

Though most Japanese companies have maintained their commitment to lifetime employment, and have avoided compulsory redundancies, they have cut recruitment and encouraged earlier retirement.

Mr Masao Hamamoto, the labour minister, said the figures showed the labour market was "in a continuously precarious situation".

Most analysts agreed. Mr Geoffrey Barker, chief economist at Barings in Tokyo, said: "Despite the reticence of com-

Japan: employment



panies to lay off en masse, the unemployment rate is likely to rise above 3 per cent in the next few months."

The inflation figures showed that consumer prices in Tokyo, the bellwether for the rest of the nation, fell in July by 0.3 per cent from a year ago, the first year-on-year drop since 1987.

A sharp decline in fresh food prices was the principal cause of the fall, according to government officials. Poor weather last summer led to a sharp rise in prices a year ago, magnifying the year-on-year decline this month.

But the core inflation rate, excluding food prices, also fell sharply to 0.6 per cent, the lowest level since September 1988.

There was better news with the publication of figures showing an increase in housing starts and a rise in consumer confidence. The construction ministry reported that housing starts were up by

10.6 per cent on a year ago to 147,909 homes, and the Economic Planning Agency reported that its consumer sentiment index rose 7.8 per cent in the three months to the end of June. The index measures expectations in five categories: employment, income growth, prices, livelihood and durable goods purchases.

But even here the good news was tempered by the fact that it was consumers' expectations of lower prices that contributed most to the increase in confidence.

Economists were agreed that, overall, the figures were consistent with very sluggish growth this year. Mr Hirohiko Okumura, chief economist at Nomura Research Institute, said: "Falling inflation and rising joblessness suggest that capacity continues to outstrip demand, pointing to a continuing weak performance by the Japanese economy for the foreseeable future."

Rise in expenditure approved

By Gerard Baker in Tokyo

The Japanese cabinet yesterday approved a 3.8 per cent increase in public expenditure ceilings for the 1995-96 fiscal year, the first rise for three years. The ceilings represent an increase of 4.8 per cent over the initial spending plans outlined in the budget earlier this year.

General operating expenditures - the core budget, excluding debt service costs and grants to local government - are to total ¥2,230bn (£284bn). Special factors, such as costs related to next year's upper

house elections and the national census, will account for much of the increase.

But the new coalition government of Social Democrat, Liberal Democrat and centrist Sakigake parties agreed to allow investment-related spending to rise by 5 per cent in an effort to stimulate the fragile economy. Current spending is to be cut by up to 10 per cent.

The principal feature of the budget allocations is a new ¥300bn special investment fund to allow the government to target priority areas such as farming assistance and tele-

communications systems. The tightest financial squeeze will be at the defence agency. Defence spending requests are to be held to an increase of just 0.9 per cent, the smallest rise since ceilings were first imposed in 1961.

Other figures released yesterday showed the government deficit in the fiscal year 1993-94 was ¥566.3bn, the second consecutive annual deficit. The figure is expected to increase sharply this year as substantial income tax cuts take effect, increasing pressure on the government to reach agreement on a consumption tax rise.

Japanese take a hesitant look at Aids

Drug users and prostitutes are honoured conference guests, reports Gordon Cramb

Japan's bureaucrats are being reduced to blue-suited bemusement at the arrival of one of the strangest and most feared processes of visitors from abroad since General MacArthur's occupying troops hit town 49 years ago.

There will be 3,870 of them at latest count, with the US supplying the largest contingent.

Known prostitutes will be waved through by immigration staff at Tokyo's Narita airport in the coming week, while intravenous drug users are assured they have nothing to fear from the normally scrupulous Narita customs as long as they bring in their prescribed methadone rather than heroin, its street equivalent.

Narita personnel are among those who have been given special training in an attempt to ensure they do not offend these honoured guests, whose visit forms part of Japan's effort to secure a role in world affairs more commensurate with its economic stature.

The country is hosting the annual international conference on Aids, which starts in Yokohama next weekend.

The bulk of those arriving from abroad for the event will be men in white coats. But the

conference, held last year in Berlin, has become an often rowdy meeting ground for the scientists seeking a cure, a vaccine or palliative treatments for the disease, companies hoping to profit from any such developments, and campaigning organisations representing those who have been exposed to the HIV virus.

Activists may, as has become almost traditional, again zap the stand at the conference centre run by Wellcome of the UK, maker of the AZT treatment for which clinical trials continue to report patchy and sometimes detrimental results.

But the campaigners will be present in smaller numbers this year. Some 12,000 participants of all persuasions gathered in Berlin, the large majority of whom came from outside Germany. This time the 4,729 Japanese delegates will predominate, according to figures released by the organising committee yesterday.

In 10 years, it is the first time the conference will have been held in Asia, where after a late start the proliferation of HIV among largely urban populations threatens to cast a shadow over economic growth.

"Now the Aids epidemic is

truly rampant in Asia, it is meaningful to hold the meeting here," Dr Takashi Kitamura, programme committee chair, said yesterday.

Up to 1m in India's great cities are estimated already to be infected, and the more developed economies represented by the six-nation Association of South-East Asian Nations (Asean) agreed last month they should seek to "prevent the disease from spreading across our workforce".

The US, Japan and Australia are to help fund an Aids programme for Asean. However, fewer than a tenth of the delegates to the Yokohama conference, which aims to focus attention on the problem facing the region, will be drawn from the Asia-Pacific outside Japan.

For most, the main impediment is a ¥90,000 (\$527) registration fee and the ¥25,000 a night cost of a hotel room near the conference centre. Some 1,500 would-be delegates applied for subsidies, but conference organisers could not say yesterday how many had been granted.

The Japanese government has committed ¥150m over

three years to the total costs of staging the conference, less than the amount required to fund each of these applicants for a one-day stay, airfare not included.

Nonetheless, health ministry officials are wearing the red ribbon of Aids awareness on their navy lapels and have been educating everyone from their airport colleagues to those who make the beds in the 820 Yokohama hotels that HIV cannot be caught merely by handling a passport or a vanity towel.

Along the way they are passing on the message, still only half believed, that Japan itself is by no means immune to the real risks.

The health ministry said this week that 3,839 residents of the country had tested HIV positive, excluding those who had contracted the virus through blood transfusions in the first half of the 1980s.

The majority of those newly diagnosed were Japanese nationals who were apparently exposed through heterosexual intercourse.

In hosting the 10th annual conference on Aids, Japan has

accrued better credentials than the US, where the assembly has not been held since its earliest years because of restrictive immigration policies. Medical researchers and pharmaceutical manufacturers arriving next week may be thankful that they are less likely than in the past to be accosted by those either decrying their treatments or demanding them for free. But if the event passes without undue incident, the Japanese bureaucrats will be the local heroes of the piece.

For a small outlay on the part of their government they will have raised awareness of the real risks while dispelling many of the anxieties surrounding social contact with people with Aids - about 90 Yokohama high school volunteers will tend those in the "care lounge".

And the conference may even bring broader trade benefits to foreign companies. The health ministry said US activists could import 3,700 condoms to distribute in Yokohama. Japan has until now prohibited condom imports by deeming them a medical product - one of its remaining non-tariff barriers to trade.



Fights broke out in the Taiwanese National Assembly on Thursday as opposition deputies staged a walkout over the passing of plans for the first direct presidential elections, set for 1996

Vietnam wakes up with a thirst

Brewers are competing fiercely in a new market, says Iain Simpson

At street-side bars throughout Vietnam, a battle is under way for the loyalty of beer drinkers. For the first time in many years, the country is experiencing a fully fledged marketing battle.

For many people there's still no choice. In many towns and cities, a small local factory produces draught beer which is sold in barrels straight to the bars. Increasingly, though, new canned and bottled beers are also on sale in bars and shops and the manufacturers are spending heavily to promote their products.

One recent arrival which has grabbed the corner of the market is Tiger beer from Singapore. It has been marketed as the drink of the newly rich. "I think if you are a businessman in Vietnam today, you will drink Tiger Beer," says a young Vietnamese executive. "That's the reason why the Vietnam Brewery which makes Tiger beer has been so successful."

Tiger caused a stir when its advertisements featuring a blonde woman first appeared. When the local authorities issued new rules banning the use of foreigners in advertising, it was rumoured to be a response to the Tiger adverts.

The beer is now brewed in the southern commercial capital, Ho Chi Minh City, by a joint venture between the Dutch brewer Heineken, Singapore-based Fraser and Neave and a local partner. It was the first such venture to produce an imported beer locally and has captured a large share of the business market.

However, it's expensive and at a dollar a bottle, most local people still can't afford to buy it. Cheaper, and more popular among ordinary people, is Saigon beer, brewed by the Saigon Brewery.

Saigon Brewery, like many of its local competitors, is in the middle of a big expansion

programme. At the moment the average consumption of beer is less than four litres a year. Across the world the average is nearly four times that and in other South-East Asian countries such as the Philippines it is much higher.

Local and foreign manufacturers believe this market still has a long way to grow. The limit now is the capacity of breweries in the country. At the moment, the national capacity is less than 300m litres a year. But everyone seems to be expanding. When current growth targets are fulfilled, towards the end of this decade, total output will be about 500m litres a year. Industry bosses say that still won't be enough to satisfy this thirsty market.

Another brewery that is expanding is Halida in Hanoi, which produces its own brand and has a joint venture agreement to make the Danish beer, Carlsberg. The brewery is in the middle of a development which will see capacity increase from 25m litres this year to more than 100m by the end of the decade.

The company that now makes Halida is one of the big success stories of Vietnam's transition to a market economy. For many years, the company produced fish paste for export to eastern Europe. But with the collapse of the communist bloc, that market dried up and general manager Nguyen Thi Anh Nuan started looking for a new outlet.

Abandoning fish paste, she managed to borrow \$3m to set up a simple beer production line. That was in 1990. Now, the company is in the midst of a massive expansion project.

Mrs Nuan says the outlook for the market is rosy: "It's now summer and if you go to a bar after about two o'clock in the afternoon, they stop serving because they have run out of beer."

China gives hope of Gatt deal

By Guy de Jonquieres in London and Amy Walker in Beijing

China said yesterday that it expected to begin "the final stage" of its negotiations to re-join the General Agreement on Tariffs and Trade at the end of next month, when it plans to file revised offers on market access for goods and services.

Speaking at the end of two days of talks with Gatt members in Geneva, Long Yongtu, Beijing's chief negotiator, said his government was ready to negotiate on the offers in September and would work constructively for agreement on accession.

The sense that the eight-year-old talks with Beijing were approaching a decisive phase was reinforced by the closing statement by Mr Pierre-Louis Irard, the Swiss economics ministry official who chaired this week's working party. He said the working party had before it for the first time "major parameters" which could serve as the basis for negotiating a draft protocol or China's Gatt accession. He hoped to call the next meeting in late September or early October.

Mr Girard indicated that prospects at that meeting were likely to depend on progress made in the meantime in bilateral discussions between individual Gatt members and Beijing.

However, he emphasised that though some progress had been made towards convergence on the issues raised by China's accession, there were still many points of difference.

Though China has previously said it wants to be a founder member of the World Trade Organisation, due to succeed the Gatt early next year, Mr Long failed to reiterate that ambition in his statements this week.

One western diplomat who participated in the meeting suggested China had begun to realise that WTO membership - which would mean subscribing to the provisions of the Uruguay Round world trade agreement - required far more complex negotiations than simply re-joining the Gatt.

Though Beijing has said it is ready to accept all the obligations of WTO membership, it presented this week's meeting with a 10-point list of "non-negotiable" demands.

Earlier this month, officials in Bei-

jing accused the US of blocking China's application and threatened to call off the negotiations if Washington does not drop its insistence that it joined as a developed country.

Observers are unsure whether China's public posture is part of a deliberate strategy, or whether - as some western diplomats in Beijing believe - it reflects political problems rooted in deep divisions in its bureaucracy.

Mr Zhu Rongji, senior vice premier in charge of the economy, has emerged as a leading "Gatt-sceptic" and is said to be insisting that negotiators yield little on China's demand to join as a developing country.

His stand may be connected with political manoeuvring in the Chinese leadership. He is under pressure from conservatives unhappy about his liberalising policies, and without his support compromise on sensitive Gatt issues will be difficult.

"The Chinese can't seem to get their act together," said a western diplomat in Beijing. "It is going to take very hard negotiations, and they are not used to hard multilateral negotiations."

Chilean growth seen as rising to more than 4%

By David Pilling in Santiago

Chile's main business federation has revised upwards its estimate of economic growth in 1994 to between 4 and 4.5 per cent. At the start of the year many business leaders were forecasting growth in the range of 2 per cent to 3.5 per cent after the economy had cooled rapidly in the second half of 1993.

"The difficulties that we foresaw at the beginning of the year are dispersing and it is becoming increasingly clear that the economy will grow by roughly 4-4.5 per cent," said Mr Jose Antonio Guzman, president of the CPC. "I am more optimistic than I was in January," he said.

Mr Guzman attributed the improved prospects to the higher prices being fetched by Chile's principal exports - copper, cellulose and fish meal - which were depressed for most of last year.

Exports in the first half of 1994 rose by 9.3 per cent over the same period

last year to \$5.3bn (£3.4bn), with non-traditional exports up 18 per cent. Imports rose by only 5.3 per cent, although those of capital goods increased by 16 per cent, encouraging hopes of future productivity gains.

Mr Guzman's statements follow the release of several other encouraging economic indicators, most recently a sharp rise in the monthly economic activity index for May, bringing the growth rate over the first five months of 1994 to 3.8 per cent. May's rise in the index of 6.8 per cent was the highest since last June.

The strong export performance, which has produced a balance of trade surplus of \$27m for the first six months (in spite of a deficit in June) has prompted the central bank to revise its trade estimates for the second time this year. The bank now expects a trade deficit of only \$150m-\$200m, compared with the near \$1bn deficit predicted at the start of the year.

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HIGHLIGHTS OF THE THREE MONTHS ENDED 30 JUNE 1994 (UNAUDITED)

Group revenue £305m up 4.8%
Pre-tax profit £111m up 11.0%
Earnings per share 8.0p up 11.1%
Passengers 22.1m up 6.0%

BAA

HELPING BRITAIN TAKE OFF

NEWS: UK

■ Lottery logo unveiled ■ BBC prepares for £2m November draw

Camelot names date for draw

By Raymond Snoddy

The UK's first multi-million-pound National Lottery draw will take place live on BBC television on November 19, less than six months after the Camelot consortium was chosen as the preferred operator.

The announcement of the launch date came yesterday as Camelot was formally awarded its licence by Mr Peter Davis, director-general of the National Lottery and the lottery operator unveiled its logo - a smiling hand with crossed fingers.

The logo, created by Saatchi & Saatchi Design and chosen from more than 100 designs, was claimed yesterday to represent everything from fun, friendliness, enjoyment and approachability to hope, anticipation, trust and honesty.

On November 19, at the end of an eight entertainment show, six numbered balls will be electronically selected from a total of 49.

Anyone who has chosen the numbers in any order could win £2m although the odds are almost 14m to 1 against. Although the size of the prizes will normally be influenced by the number of £1 lottery tickets sold in any week it is likely there will be a minimum jackpot of £2m for the first draw.

The licence, which will run until the end of September



Fingers crossed: Tim Holley, chief executive of Camelot, reveals the National Lottery logo outside the British Museum, London.

2001, closely follows the draft licence published last year except that the commitments made by Camelot when it applied for the licence have been incorporated. These range from the percentage of ticket sales that will go in prizes, to the percentages of revenues that will go to the five good causes to benefit from the National Lottery: the arts,

charities, a millennium fund, the national heritage and sport.

The percentage of prize money before deduction of 12 per cent lottery duty ranges from a low of 47.2 per cent of ticket sales in the 1995 financial year ending March 31 to a high of 50.85 per cent the following year.

At ticket sales of between

£750m to £1.5bn a year the percentage going to good causes will range from 21.66 per cent to 26.8 per cent.

If the lottery has revenues of more than £3.5bn a year - which is thought to be possible - the good causes will get between 31.35 per cent and 34.05 per cent.

Camelot, which groups Cadbury Schweppes, De La Rue,

GTECH, ICL and Rascal Electronics, said yesterday the project was on track for the November launch with 20 technicians of furniture arriving next week at its headquarters in Rickmansworth, Herts.

Manufacture of the on-line computer terminals has begun and more than 8,000 of the 10,000 retail outlets needed for the launch have signed up.

DTI uncovers insolvency rule breaches

By Andrew Jack

Nearly 9 per cent of insolvency practitioners inspected by the Department of Trade and Industry in the past year seriously breached their obligations under the law, a report said yesterday.

Of 160 monitoring visits made in the 12 months to April, reports were produced on 14 which identified "significant compliance problems".

The problems, all of which have been referred to the relevant professional bodies for regulatory action, included sub-contracting of work without adequate controls and payments for the introduction of insolvency work.

In addition, a further six practitioners were subject to "detailed special inspections". Eight practitioners were under inquiry at the end of the year; another has been charged with criminal offences and is awaiting trial.

The details emerged in the annual report of the Insolvency Service, an executive agency of the DTI under the government's Next Steps programme.

Other failures identified by the department included poor financial records and failure to

keep adequate administrative records, including the approval of remuneration.

The compliance failures come in spite of initiatives over the past few months by the insolvency profession to develop a self-regulatory regime as a result of pressure from the Insolvency Service.

There were 1,961 licenced insolvency practitioners in the UK last year, down from 1,993 in 1992. They come under the control of seven professional bodies as well as some directly supervised by the DTI.

Mr Peter Joyce, inspector-general and chief executive of the Insolvency Service, said in the report that it planned a further "significant increase" in the volume of prosecutions and disqualifications this year.

The comments follow a highly critical report last year by the National Audit Office, the Whitehall watchdog, into the relatively low volume of disqualifications.

Mr Joyce says the service "continued to struggle to achieve its targets" in the face of a backlog of 57,000 uncompleted case files of collapsed companies and bankrupt individuals being examined in the middle of last year.

Swans bid 'worth less than £5m'

The receiver to Swan Hunter, the Tyneside shipbuilder facing closure, said yesterday that the price offered by the prospective bidder for the company as a going concern was significantly below £5m, and substantially below the business's break-up value, Chris Tighe writes.

The comments from joint receiver Mr Ed James of Price Waterhouse underlined how poor the prospects now are of saving north-east England's last shipbuilder. Mr James said this week's bid from Construction Mécanique de Normandie was less than half the £10m figure discussed earlier this year. Swan's break-up value is understood to be about £7.5m.

CMN insisted its offer, including £5m relating to a tax loss deal, was worth £1m. It wants to negotiate not with Price Waterhouse but with Lloyds Bank, Swan's principal creditor.

Speculation on Archer post

Speculation mounted among Conservatives yesterday that Lord Archer, the party's former deputy chairman, would be offered a government post after being cleared of insider dealing allegations.

However friends of Lord Archer said the prime minister had not yet made any formal approach to the peer, who is one of the party's leading activists and fundraisers.

Bank closure ruling to stand

One of the owners of Mount Banking, the Asian-controlled bank closed by the Bank of England in 1992, yesterday lost his High Court appeal against the decision.

Mr Navinchandra Bhagwanji Shah claimed the decision by the Banking Appeal Tribunal last year to uphold the Bank of England's decision was unjust and that the Bank's original judgment was perverse.

Theme park convictions upheld

Three businessmen jailed for fraud after the longest criminal trial in English legal history failed yesterday in appeals against their convictions.

The Court of Appeal rejected argument that the 253-day Britania Park trial was so long and complex that the jury must have been unable to concentrate sufficiently to reach a safe and satisfactory verdict.

Mr Peter Kellard, Mr Edward Dwyer and Mr John Wright, former chairman of the Derbyshire theme park, were convicted in 1992 of offences including fraudulent trading.

Nirex files waste site plans

Nirex, the nuclear waste disposal company, yesterday filed its long-awaited planning application with Cumbria county council for a £120m rock laboratory beneath the Sellafield site, a step towards its proposed £2bn underground waste repository.

The laboratory is needed for a geological study of the site to enable Nirex to decide whether the repository should be built.

Three jailed for fraudulent trading

Three businessmen were yesterday jailed for fraudulent trading at Extra Special Vehicles, based at Banbury, Oxfordshire, which collapsed in 1990 with £5m debts.

Mr Robert Colman, ESV chairman, and Mr Moshe Hochberg, finance director, were both jailed for three years. Mr Robert Knight, a financial adviser, was jailed for 4½ years.

They had been convicted following a 12-week trial at Northampton Crown Court.

Case on Bar lost

Four students denied places to train as barristers yesterday lost their legal battle in the Court of Appeal over the new selection criteria adopted by the Bar law school, which is run by the Council for Legal Education. They had argued the school paid too little attention to degree results.

Hospital plea fails

Campaigners yesterday failed to prevent the closure of the accident and emergency unit at London's St Bartholomew's hospital. The Court of Appeal refused leave to appeal against the High Court's rejection of judicial review proceedings.

Eurotunnel set for passenger licence

By John Willman, Public Policy Editor

The go-ahead for passenger train services to run through the Channel tunnel is expected very shortly, Eurotunnel said yesterday.

The company said that it understood that the Anglo-French Intergovernmental Commission, which must approve passenger services, had met on Thursday to make its decision.

Eurotunnel said it had completed its presentations to the commission's safety authority,

which must satisfy itself on the safety aspects of train operations in the tunnel, earlier in the week. Letters setting out the commission's decision were expected very shortly.

The company, which already runs freight services, wants to operate two types of passenger service:

● Eurostar high-speed passenger services between London, Paris and Brussels.

● Limited Le Shuttle passenger services between tunnel terminals at Cheriton in the UK and Sangatte in France,

BCCI official convicted of profits fraud

By John Mason, Law Courts Correspondent

A former senior official with the collapsed Bank of Credit and Commerce International was convicted yesterday at the Old Bailey of helping dishonestly to boost the bank's profits by £250m.

Mr Imran Imam, a former accounts officer based at BCCI's London headquarters, was convicted of one charge of conspiring to conceal documents, two of conspiring to falsify records or documents and one of furnishing false information. He was acquitted of one charge of furnishing false

information. He was released on bail and will be sentenced next Wednesday.

The conviction of Mr Imam marks the fourth successful prosecution brought by the Serious Fraud Office following its investigation into BCCI.

However the prosecution proved controversial, provoking the anger of US prosecutors in the New York District Attorney's Office. They have relied upon Mr Imam as a main witness in the US trials and felt his conviction could taint his reputation as a possible witness.

Mr John Moscow, the assistant district attorney, told a pre-trial hearing in London that because the US authorities believed the SFO would use Mr Imam as a witness - not put him on trial - they had given the SFO documents relating to Mr Imam. The SFO denies giving an assurance that Mr Imam would not be prosecuted.

Mr Imam worked closely with Mr Swaleh Naqvi, the former BCCI chief executive, and Mr Agha Hasan Abedi, its former president.

He helped to boost the bank's profits by falsifying documents relating to loans totalling \$2bn apparently made by BCCI to wealthy customers. BCCI never intended these

loans to be repaid but was able to claim it was receiving income in the form of interest and fees from the transactions.

Mr Imam himself received interest-free loans from the bank which totalled £1m.

Earlier this month the SFO secured the arrest of Mr Abbas Gokal, the head of the Gulf Group, the international shipping and trade conglomerate which was by far BCCI's largest customer. Mr Gokal was arrested at Frankfurt airport by German police after the SFO received reports that he had left Pakistan where he had remained, safe from extradition, since 1991. Proceedings to

extradite him to the UK have begun.

The SFO is also considering bringing charges against Mr Naqvi. This will depend on events in the US where he is negotiating a plea-bargain deal with federal prosecutors. He was also sentenced to 14 years imprisonment by the Abu Dhabi authorities.

Previous SFO prosecutions over BCCI have led to the convictions of Mr Syed Ali Akbar, a former head of the bank's treasury department, Mr Mohammed Baqil, a former head of Attock Oil, and Mr Nazim Virani, the former property entrepreneur.

Restructuring leaves video project chief without a job

By Raymond Snoddy

British Telecommunications has broken up the division which helped to develop and promote video-on-demand, leaving its director Mr Steve Maine without a formal post.

Mr Maine, who has been at BT for 20 years, ran the Visual and Broadcast Services division from 1991. The division was responsible for such activities as video conferencing, satellite data broadcasting and the provision of communication networks for broadcasters.

The development of video-on-demand, which also included a wide range of home services using the telephone network, was potentially the division's highest priority.

Technical trials of video-on-demand, sending VHS-quality pictures down telephone lines

at the same time as the line is being used for conversation, are nearing completion.

Marketing trials involving between 2,000 and 2,500 homes are due to start later this year or early next year.

Mr BT decides to go ahead with what it calls interactive multimedia services the investment would probably involve several billion pounds. Sophisticated computer databases would have to be installed at telephone exchanges.

Earlier this year Mr Maine told delegates at a Financial Times conference: "If you are in the home-entertainment business, think beyond the existing boundaries of your industry - talk to us at BT."

The video-on-demand project has now gone to ICE - the BT division responsible for information, communication and

entertainment. Mr Rupert Gavin, a marketing director from retail group Dixons, has been brought in to run the division.

The appointment reflects the strategy of Mr Michael Hephner, BT's group managing director, to make the organisation more marketing-led.

Mr Maine is said to be carrying out "a special project" and an announcement about his new job in BT is expected "in due course".

Mr Maine, who is on holiday, was unavailable for comment.

BT satellite services will become part of the international communications division. Video conferencing will go to business communications. BT emphasised that the restructuring did not mean any lessening of its commitment for interactive multimedia.

Gummer issues writ against BT over rent

By William Lewis

Mr John Gummer, the environment secretary, yesterday issued a writ against British Telecommunications claiming more than £2.2m in rent and interest.

Mr Gummer alleges that since Christmas Day, BT has failed to pay £2.1m of rent for the 15 floors of the Euston Tower, in north-west London, that it leases from the department through an underlease.

Mr Gummer also claims that BT, through two other underleases, owes another £123,000 for 50 parking spaces and rooms it rents in the tower's basement.

The writ comes as BT, which has one of the largest corporate property portfolios in the UK, presses on with plans to cut its holdings from 75m sq ft to 15m sq ft by 2010.

A BT spokesman said he knew of no connection between the writ and any property disposals.

He added that the writ had not yet been served on the company.

The Euston Tower is owned by British Land.

P&O threat on animal welfare

By David Lascelles, Resources Editor

P&O, one of the largest cross-channel ferry companies, yesterday threatened to stop transporting vehicles carrying animals for slaughter unless European farm ministers agreed on improved standards.

The company set next October as the deadline for an "imminent prospect" of European Union legislation to deal with the mounting controversy over conditions for live export.

Lord Sterling, P&O chairman, said last night that the company had acted after reviewing legislation on animal transport standards. This had shown that there was "no way" these could be enforced.

P&O's decision follows an increasingly vociferous campaign by animal-rights groups against the conditions in which sheep and cattle are transported to continental slaughterhouses. Animals often travel for several days in packed lorries without food or water. Last month, Mr Alan Clark, the former trade minister and campaigner against animal cruelty, joined other activists in calling for a boycott of cross-channel ferry companies which trans-

ported animals for slaughter. Lord Sterling said that his decision to put pressure on government was not out of concern for the damage that a boycott might do to his company. "It's deeper than that," he said. "There are certain subjects that go beyond commercial considerations."

Mr William Waldegrave, the agriculture minister, said the government was determined to make progress on the issue without causing unfair disadvantage to British farmers. But "those urging precipitate action would do nothing to protect travelling animals in the long term, and would impose an immediate damaging effect on a trade already going through a difficult period".

He stressed that this was an EU-wide matter, and that the current German presidency had indicated that it would give it a high priority.

EU rules currently permit animals to be transported for 24 hours without a break. Last June, the Greek presidency proposed to reduce this to 22 hours for food and 18 hours for water, but the UK government rejected the plan. Animal rights groups have been pressing for a maximum of eight hours.

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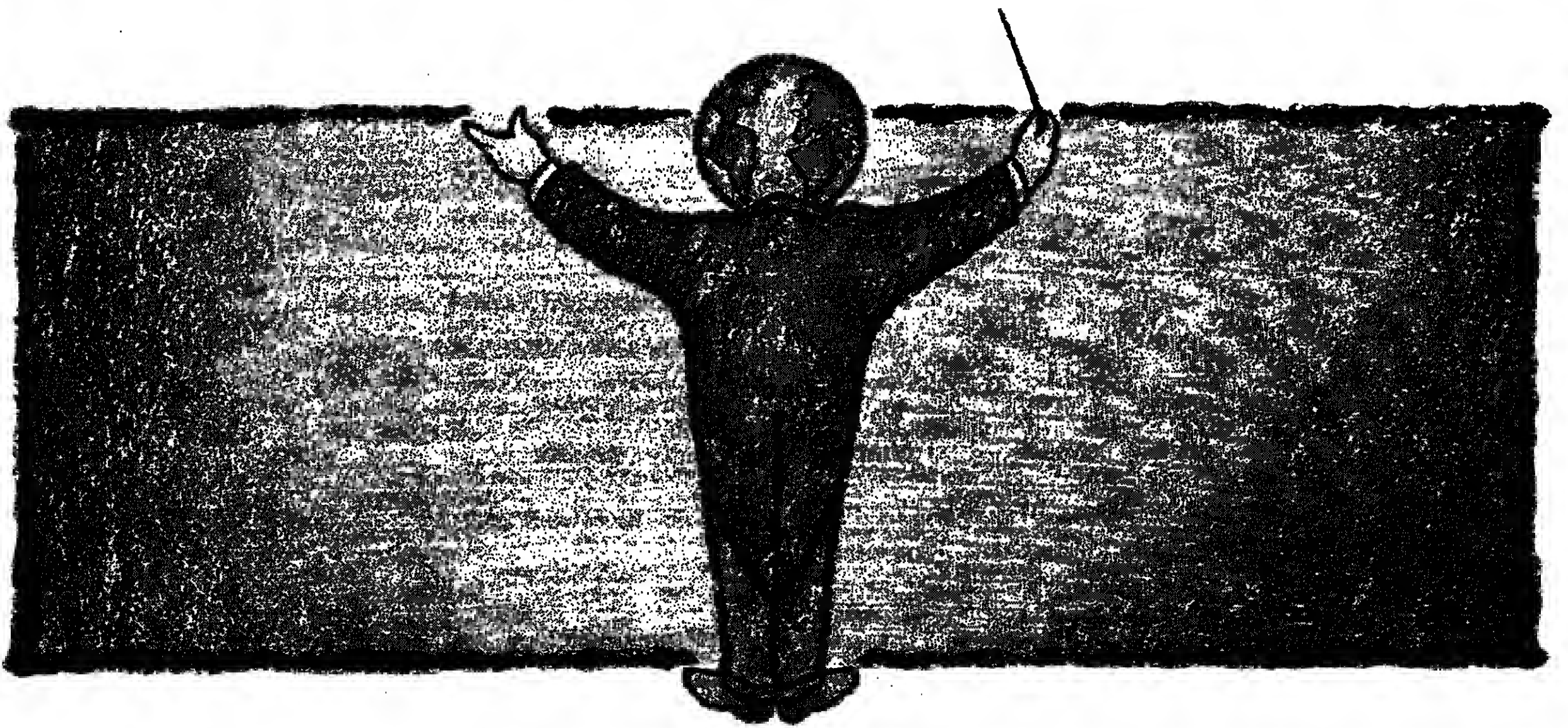
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Lloyd's poised to scrap three-year accounting

By Andrew Jack

Lloyd's of London yesterday signalled the probable end of the archaic requirement for underwriting syndicates to report their results over a three-year period.

The corporation said it was considering removing the financial practice which is linked to nautical traditions as old as the 300-year old insurance market itself.

The move is partly a symbolic

modernisation but is also likely to have widespread implications in releasing profits more quickly to both corporate capital and Names, the individuals whose assets have traditionally supported the market.

The practice of using three-year accounting periods for syndicates is rooted in the origins of Lloyd's, which derived its business from insuring trading ships on their voyages around the world.

Three years was the time it took before ocean-going vessels returned to dock in England, at the end of which underwriters would know for certain the size of any claims on which they were expected to pay.

Since then the range of insurance activities underwritten at Lloyd's has diversified and the reasons for the practice have been lost in history.

Lloyd's said yesterday: "A three-

year return voyage to the Spice Islands can't really be equated with an aircraft crash or the sales rep driving around the M25 in a car."

The Lloyd's market and regulatory boards have both in principle agreed to allow syndicates to reduce the three-year accounting period to two years.

A further progression to one-year accounts - in line with the practice of most companies and other organi-

sations which issue financial statements - is likely to follow.

The modification still requires the approval of the Lloyd's Council, which meets next Wednesday, and further details are likely to be released by October.

Under the changes - which will be voluntary - an interim payment from the 1993 underwriting year could be paid during 1995.

The first two-year accounting cycle would start with the 1994 year,

allowing it to close at the end of 1995 with profits distributed during 1996.

The result would be that loss-making Names would be able to offset their outstanding losses more quickly against profits generated by the syndicates of which they are members.

Some predictions suggest that across the market there will be modest losses in 1992 but that 1993 is likely to be profitable after several years of heavy losses.

Pension members win costs ruling

By John Mason, Law Courts Correspondent

Members of pension schemes taking legal action over alleged mishandling of fund assets were placed in a stronger position yesterday by a Court of Appeal ruling that they can be awarded costs from pension funds before cases reach court.

Three judges upheld a High Court decision granting a "pre-emptive costs order" to the beneficiaries of the pension scheme run by Melton Medes, a trading conglomerate.

The members allege fund assets were improperly handled when a £5m loan was made from the fund to the company and later repaid. They are claiming £7m compensation.

The members have argued they could not pursue their case without the costs order applied for after their union, the Graphical Paper and Media Union, had to stop funding the action.

In reaching their decision the judges made clear they were responding to concerns expressed by the Pension Law Review committee headed by Professor Roy Goode. The committee had called on the judiciary to set clear guidelines for pre-emptive costs orders for pension case litigants.

Concern has centred on the inability of pension fund members to bring legal action when they are ineligible for legal aid.

Lord Justice Hoffman warned their decision might not be confined to pension cases and could have implications for all trust litigation.

Terrorist targets identified last year

By Jimmy Burns

A security report identifying London's "embassy row", which includes the Israeli embassy, as a prime potential target for a car-bomb attack was given to the royal household and to the Metropolitan Police at the end of last year.

The 100-page risk analysis, which detailed the resurgent threat of fundamentalist groups opposed to peace moves in the Middle East, was prepared by one of Britain's leading anti-terrorist experts.

It was commissioned by officials working for the royal family as part of a security review of the state departments of Kensington Palace, which is situated near the Israeli embassy.

The report's author, Major John Wyatt, was a serving officer in Ulster. His private company, Search Training International, has advised businesses on protection against terrorism and on security for the Crown Jewels.

Maj Wyatt said this week that he had been concerned about security being relaxed prior to Tuesday's bomb at the Israeli embassy. However he added that in his view "no degree of risk analysis" could have prevented the attack.

Nevertheless news of the report's existence will be an embarrassment to security officials who have been criticised by the Israeli government for ignoring requests for additional security after the July 18 bomb attack on the central Jewish community building in Buenos Aires which killed at least 96 people.

Scotland Yard would not comment on the report but a police official expressed surprise that a risk analysis for Kensington Palace on such a sensitive subject should have been commissioned from a private consultancy and not from the police or the intelligence agencies.

The report does not specifically refer to the Israeli embassy. However it identifies the growing threat of terrorism by Iran and by fundamentalist groups opposed to the Middle East peace moves.

According to the analysis, the threat had shifted from the US to Europe following the bomb attack on New York's World Trade Centre.

Predictions of an upsurge in fundamentalist terrorism do not appear to have been shared by MI5 and MI6, the intelligence agencies. Both appear to have focused their attention on the threat posed by the IRA.



Eric Britt, master of the Worshipful Company of Carmen, at the annual cart-marking ceremony in the City yesterday. The Corporation of London has traditionally exercised a right of jurisdiction over carts for hire in the City. Photograph: Ashley Ashwood

MPs urge more economic debate

By David Owen

Senior Tories are adding their weight to Labour calls for the government to earmark more time for debating economic issues as part of a package of parliamentary reforms.

Sir Terence Higgins, MP for Worthing and chairman of the liaison committee of select-committee chairmen, is worried that the move to a unified Budget has resulted in fewer appearances before MPs by Mr Kenneth Clarke, the chancellor.

Sir Terence, a highly respected senior backbencher, used a recent Commons debate to say that he could not remember an occasion in the last 30 years when a chancellor had gone as long as seven months without addressing the Commons.

He described the move to a unified Budget as "pretty disastrous" in procedural terms. "As a result of that change, opportunities to debate the most important area of policy - economic policy - have been seriously eroded," Sir Terence said.

His comments come as talks between the two main parties aimed at coming up with a package of procedural reforms are said to be making headway. Mr Tony Newton, the

Commons leader, told MPs before the summer recess that "good progress" on identifying a package of reforms had been made - although "a good deal of detailed work remains to be done".

His feelings were echoed by Mr Nick Brown, his Labour opposite number, who said he hoped proposals could soon be put to MPs "that may well apply in the next session".

The number of late-night sittings and the format of prime minister's questions are understood to be among the subjects the two sides are discussing.

The reform initiative followed a call by Mr John Major, the prime minister, last month for some of parliament's antiquated procedures to be overhauled.

The government is hoping to introduce a controversial bill increasing Britain's contribution to the European Union budget early in the next parliamentary session, starting in November, having been prevented from legislating in the last session by a dispute in the EU Council of Ministers.

The bill - giving force to changes in the EU's funding system in line with the agreement at the Edinburgh European Council in December 1992 - is almost certain to be opposed by Tory Eurosceptics.

BAA plc results for the three months ended 30 June 1994

	3 months to 30 June 1994	3 months to 30 June 1993	change %
Passengers	22.1m	20.8m	+6.0
Revenue	£305m	£291m	+4.8
Pre-tax profit	£111m	£100m	+11.0
Earnings per share (after one for one capitalisation issue)	8.0p	7.2p	+11.1

Pre-tax profit was £111m, up 11%, with revenue of £305m, up 4.8%. The financial performance reflects strong traffic growth together with increased retail income and improved property income. The Company continued to keep tight control of its operating costs and productivity improved by 5.7%.

Passenger numbers increased by 6% with particularly strong growth in the charter and long haul markets. Revenue from airport charges was £117m, a rise of 5.6%. The Company is forecasting traffic growth of between 5% and 6% for the year as a whole.

Retail revenue rose to £125m, up 8.5%, despite sales continuing to be held back by disruption from the redevelopment of facilities at the airports. Where new facilities have been completed growth is higher. In Terminal 4 retail revenue grew by 14.1% and by 7.3% per passenger and in Terminal 3 where the phased redevelopment was recently completed, growth is 16.8% for the

three months and 4.4% on a per passenger basis.

Airport property income rose by £4m to £40m reflecting the contribution from new facilities such as the Combined Operations Centre for British Airways at Heathrow.

Capital expenditure rose by 72.6% to £88m. The Company continues to exercise tight control over the costs of its major projects. Net debt has increased by £33m and now stands at £772m.

Chief Executive Sir John Egan commented, "The three month trading performance shows the Company's airports benefiting from strong traffic growth as the worldwide economy recovers. Gatwick in particular has shown its strongest growth for three years. Our strategy of developing the core business, building revenue and controlling costs has enabled us to capitalise on this growth and this confirms our confidence in the prospects for the next nine months and beyond."

PROFIT AND LOSS ACCOUNT FOR THE 3 MONTHS ENDED 30 JUNE 1994

31 March 1994		30 June 1994	30 June 1993
		(unaudited)	
£m		£m	£m
1,098	Revenue	305	291
(730)	Operating costs	(184)	(178)
368	Operating profit from continuing operations	121	113
(46)	Interest	(10)	(13)
322	Profit before taxation	111	100
(82)	Taxation	(29)	(26)
240	Profit for the period	82	74
47.0p	Earnings per share (pence) before capitalisation issue	16.0p	14.5p
23.5p	Earnings per share (pence) after capitalisation issue (see note 5)	8.0p	7.2p
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES			
240	Profit for the period	82	74
340	Unrealised revaluation surplus	-	-
580	Total gains and losses relating to the period	82	74

NOTES ON THE PROFIT AND LOSS ACCOUNT
1. This statement has been prepared in accordance with the accounting policies used in the statutory financial statements for the year ended 31 March 1994.
2. The figures for the year ended 31 March 1994 are extracted from the published accounts. A copy of the full accounts for that year, on which the Auditors have issued an unqualified report, has been delivered to the Registrar of Companies.
3. The interest charge is shown net of interest capitalised of £9.7m (30 June 1993: £6.2m; 31 March 1994: £30.3m).
4. The taxation charge for the three months ended 30 June 1994 has been based on the estimated effective rate for the full year.
5. The capitalisation issue was approved by shareholders at the Company's Annual General Meeting on 14 July 1994.

Our registers are: Barclay's Registers, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Telephone: 081 630 4866.

CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 1994

31 March 1994		30 June 1994	30 June 1993
		(unaudited)	
£m		£m	£m
3,604	Fixed assets	3,678	3,073
(239)	Net current liabilities	(238)	(113)
3,365	Total assets less current liabilities	3,440	2,960
(822)	Creditors: amounts due after one year	(815)	(839)
2,543	Share capital and reserves	2,625	2,121
£4.98	Net asset value per share before capitalisation issue	£5.14	£4.18
£2.49	Net asset value per share after capitalisation issue (see note 4)	£2.57	£2.09

NOTES ON THE BALANCE SHEET
1. The Group's investment properties are included at 31 March 1994 valuations as adjusted for expenditure since that date.
2. Airport fund assets include £62.3m representing expenditure in date on Terminal 5 (30 June 1993: £37.5m; 31 March 1994: £76.2m).
3. Liabilities include borrowings of £815.0m (30 June 1993: £821.4m; 31 March 1994: £814.8m) retained in accordance with FRS 4, Capital Instruments.
4. The capitalisation issue was approved by shareholders at the Company's Annual General Meeting on 14 July 1994.

CONSOLIDATED CASH FLOW STATEMENT FOR THE 3 MONTHS ENDED 30 JUNE 1994

31 March 1994		30 June 1994	30 June 1993
		(unaudited)	
£m		£m	£m
474	Operating activities	85	109
(161)	Returns on investments and servicing of finance	(2)	(4)
(70)	Tax paid	(10)	(10)
(236)	Investing activities	(106)	(51)
7	Net cash (outflow)/inflow before financing	(33)	44
22	Financing	3	23
(19)	(Decrease)/increase in cash and cash equivalents	(30)	21
7		(33)	44

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Tory managers plan to avert defeats in Lords

By David Owen

Government business managers plan a thorough overhaul of consultation and information-gathering in the House of Lords in an effort to curb embarrassing defeats.

By keeping its ear close to the ground, the energetic - and surprisingly youthful - new government team in the upper house hopes to make sure that potential flashpoints are identified early and defused before they become headline news.

The initiative follows a session during which peers savaged the criminal justice bill and other measures.

Last week's ministerial reshuffle included sweeping changes in the upper house. Lord Cranborne, 47, replaced the 62-year-old Lord Wakeham as Lords leader and five of the seven posts in the government whips' office changed hands.

Lord Strathclyde, 34, the new chief whip, has served in four government departments. The Earl of Arran, 56, the new deputy chief whip, is also an experienced minister.

An early signal that Lord Cranborne is likely to devote more time than his predecessor to hands-on management of

Further details of new ministerial responsibilities were announced yesterday.

At the Department of Transport Mr John Watts will cover all railway issues and road infrastructure policy including the Highways Agency. Mr Steven Norris will be responsible for London transport, local and urban transport nationwide, and road and vehicle safety. He will also handle aviation and shipping matters in the Commons. Viscount Goschen will be responsible for aviation, airports and all

marine and shipping matters. He will handle all the department's business in the Lords.

At the Department of Trade and Industry the following are to assume responsibility for industrial issues in the regions: Lord Ferrers - East Anglia and east Midlands; Mr Richard Needham - west Midlands; Mr Tim Eggar - south-east and south-west; Mr Neil Hamilton - north-west and Merseyside; Mr Charles Wardle - the Yorkshire area and Humberside; and Mr Ian Taylor - north-east.

Some experienced Lords observers expect the authority of the new team to be enhanced by the fact that both the house leader and the chief whip are hereditary peers.

They say some peers were resentful that so many recent Lords leaders have been relatively recent arrivals from the House of Commons.

Mr Tim Sainsbury, the MP for Hove for more than 20 years, is to leave the Commons at the next election.

Mr Sainsbury had a majority of 12,288 over Labour at the last election. He resigned as industry minister in the reshuffle last week.

FINANCIAL TIMES

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Saturday July 30 1994

Credible forecasts

"In July the sun is hot. Is it shining? No it's not." Flanders and Swann's old advice for those planning their holidays in Britain is an equally good guide for those fretting about the pace of the country's economic recovery.

True, the horizon remains unusually cloudless for an upturn which is two years old. But the test of whether the government will allow it to overheat lies ahead.

While the economy's worrier-in-chief, the Bank of England, was celebrating its 300th birthday, others in the city this week did some worrying of their own. This led to a significant fall in the price of UK government bonds. The yield on a 10-year gilt-edged security had risen to over 8.6 per cent by the end of the week, while Friday's money markets brimmed with expectations of interest rate rises to come. Is this midsummer madness, or something a bit more fundamental?

Wednesday's silly rumours, whether substantiated or not, that a Conservative MEP had called for a hike in interest rates, would probably have received less attention in cooler months. UK bonds were also partly suffering a knock-on reaction from fears of inflation in the US. But the Confederation of British Industry's Industrial Trends Survey for July, published on Wednesday, helped fuel more home-grown fears that interest rates would need to rise soon.

Receiving most of the attention were the survey's findings on manufacturing capacity. The number of companies reporting that they were operating below full capacity fell to 54 per cent, compared to 59 per cent four months ago. The latter happens to be the long-term average rate. Slightly more firms also fear that capacity will restrain their output in the coming months: another warning.

Market speculation

Although there are some causes for concern, little in the survey points to an imminent take-off in prices, as the authors themselves point out. Similarly, the Treasury's monthly monetary report - released as the governor of the Bank of England had his monthly meeting with the chancellor of exchequer - provided the participants with few reasons for continuing the financial markets' speculations. The narrow measure of money growth, though still growing faster than its monitoring range, slowed slightly in June, to 6.8 per cent, while output price inflation, as reported earlier in the month, remains at its lowest level since 1991.

Monetary authorities with less profligate histories might get away with leaving things as they are. But British financial markets currently need rather more persuading that Mr Clarke will hold fast to his medium-term inflation targets. The gap between conventional and index-linked government bonds, a rough guide to inflation expectations, indicates that the market expects inflation to average over 4.6 per cent during the next five years, considerably more than the government has promised.

Attaining greater long-term credibility will take more than the publication of the two gentlemen's monthly conversations. It will mean showing a willingness to act to slow price pressures, even when they remain beneath the surface. The significant growth in commodity prices, as many have remarked, is a potential source of such pressures. But these play a much smaller role in determining production costs than pay.

At present, growth in average earnings remains moderate, at a yearly rate of 3.4 per cent, having been broadly flat over the past three months. This should not breed complacency, however. For one thing, average earnings are not a complete measure of labour costs, since they exclude the cost of many cash and non-cash benefits. As the pay research body, Industrial Relations Services, points out in its latest monthly bulletin, several of these excluded costs have been rising in recent months.

While overall employment growth has been slow to appear in this recovery, the CBI's finding that a growing number of firms is experiencing skilled labour shortages is also worth worrying about, even if the proportion of affected firms remains below 10 per cent. If skilled labour is becoming scarce, it may not be readily available, since unskilled male unemployment at the beginning of the 1990s was some 5% times the figure for skilled workers.

Wage developments in the months and years ahead will be the central test of whether the UK economy is able to deliver a higher level of employment, while keeping prices stable. But average earnings figures tend to lag behind developments elsewhere. Mr Clarke does not have the luxury of waiting for the figures to look significantly more alarming. If he is serious about inflation, Conservative MPs hoping to escape the year without an interest rate rise are likely to be disappointed. They may not even reach their party conference unscathed. Sterling futures are discounting a significant rise in base rates by the autumn. "Bleak September, mist and mud, is enough to chill the blood."

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The "superhighways" of the future have nothing to do with eight-lane motorways. They are sophisticated telecommunications networks connecting living rooms and offices that will buzz with inter-active computer terminals.

If some modern prophets are to be believed, home shopping, games, movies, lessons, remote diagnosis and treatment of illnesses, information on virtually anything could be available at the flick of a button, via fibre-optic telecoms lines - providing a "communitopia" of new services, transforming work and leisure patterns.

Some believe the living room will ultimately double as the office for many, perhaps most, people, as "teleworking" spreads and commuting becomes a minority activity.

For British Telecommunications, entering its second decade after privatisation, assessing and successfully exploiting the growth of superhighway services is a critical challenge. The task is still greater because, at the same time, BT is fighting to protect its position in the existing UK telephony market and attempting to turn itself into a global company.

Phone boxes now work, call charges are falling, and service quality is far higher than at the time of privatisation. But the UK's largest company yearns to be the main UK provider of inter-active services in the next millennium. "We will become retailers of anything you can convert into digital form," says Sir Iain Vallance, BT chairman.

Earning £60m of profit each week, BT has the resources necessary to build a superhighway, and it is a match for any other telecoms company in its access to technological know-how.

Yet for management and employees alike, BT's vision goes hand-in-hand with deep frustrations. Besides mass redundancies, the company faces tougher competition at home, a UK regulatory regime that it claims makes superhighway investments uneconomic, and deep uncertainties about the strength of demand for new inter-active services.

This week BT received a fillip when the House of Commons trade and industry committee declared a "national priority" and called for a gradual lifting of the ban on BT providing broadcast entertainment services to homes.

The government has yet to endorse that recommendation. But BT is planning on the assumption that it will be able to offer a full range of inter-active services by the late 1990s. It is currently undertaking technical trials at Ipswich, to be followed next year by commercial trials of home shopping, video-on-demand and other inter-active services with 2,500 customers in Colchester. Dr Alan Rudge, BT's director of development, says the first services could "follow on from those trials".

Yet even if regulatory hurdles are lifted, the demand for such services is questionable. Teleworking has obvious attractions, but it is debatable whether most businesses or individuals will think it desirable, let alone feasible.

In the shorter term, it has yet to be shown that services targeted at residential consumers across inter-active networks - such as home shopping, teaching packages, video-on-demand and games - can be competitive. Existing providers, such as video stores, and high-tech alternatives to the network ser-

vices, such as CD-Rom discs (advanced multimedia versions of compact discs which run on personal computers), may be cheaper for consumers than superhighways.

BT is finding it hard enough to persuade people to use normal home telephones, which are currently engaged for an average of barely four minutes a day. Persuading customers to use a telecoms terminal for expensive multi-media wizardry is a speculative venture.

Furthermore, if telecoms operators can carve out a distinct niche for inter-active home services, then the main gainers may not be BT but the cable operators which have had a head start in building inter-active local networks and already claim 750,000 TV subscribers. Should the cable operators, mostly backed by large US groups, corner the market for domestic inter-active services before BT has constructed its "superhighway", there may be no room for a BT fibre-optic local network offering the same services.

All of which makes the battle between BT and its 130 telecoms competitors in the UK - most of them licensed in the past three years - more than a straight fight over the existing telephony market. BT still has an 85 per cent market share but, says Sir Iain, "this is a war of attrition, and our strategy has to be to fight every inch of the way".

To combat domestic competition, Sir Iain's strategy is to turn BT into a marketing-led company with a reputation for quality. Mr Michael Hepher, BT's managing director, tells the company's managers he wants BT to be the Marks and Spencer of the UK telecoms industry. It is more than a quip. A confidential report to the BT board last spring, based on a survey of opinion from former, ranked BT's corporate image 7th out of 7 selected blue-chip UK companies. The top-rated company, with favourable ratings from 91 per cent of respondents (against 43 per cent for BT) was Marks and Spencer. Tellingly, the most recent non-executive director to be appointed to the BT board is Mr Keith Oates.

'We will become retailers of anything you can convert into digital form,' says Sir Iain Vallance, BT chairman

deputy chairman of M&S.

Mr Hepher's mission, strongly backed by Sir Iain, is to carry through a cultural revolution, eliminating all trace of BT's old utility and monopoly ethos. To lead the revolution Mr Hepher, an outsider recruited by Sir Iain three years ago from Abbey Life, the insurance

A long and winding road

Should BT go down the superhighway?
Andrew Adonis looks at the telecommunications company's strategy

BT: a picture of the future



	1993/94	1995/94
Turnover	£5.9bn	£13.7bn
Pre-tax profit	£390m	£2.7bn
Fibre in network	Less than 500,000 km	2.6million km
Employees	241,000	196,000
Payphones	76,500	122,000
Residential lines	16.06m	20.47m
Business lines	3.77m	6.17m
Proportion of revenue generated in UK	100%	96%
Chairman's salary	£84,198	£863,000

Source: BT

group, has been steadily filling the top executive posts with fellow outsiders.

"We are continually winnowing out the old-style managers," says Sir Iain, emphasising that customer responsiveness and an appreciation of the need for change are the qualities he most values in his managers. BT's management board, which Mr Hepher chairs, has been renamed the "group quality council." Of its nine members, only two are career BT executives: the other seven are recent recruits from companies as diverse as IBM, Black & Decker, and US West, the US regional phone company. Another former IBM executive, Mr Howard Ford, has just been appointed to head Cellnet, BT's cellular network joint venture with Securicor.

In the business sector, where Mercury, BT's main rival in the UK, is well-established, Mr Hepher has been masterminding a "win back" campaign, emphasising the quality of BT service. In the domestic sector, a recent marketing blitz has concentrated on getting people to realise how cheap it is to use the

phone. BT staff in all sectors are being familiarised in basic marketing techniques.

The strategy appears to be bearing fruit. In the past year BT has increased its inland traffic by 7 per cent and its international traffic by 5 per cent - more than compensating for the loss of business to Mercury, cable operators, and other

BT has set out to build a significant international business. Abroad, as at home, its ambition is to dominate

competitors. According to Robert Fleming, the brokers, BT is adding phone connections at the rate of 100,000 a month, including cellular and land-based lines, which is four times its rate of loss to cable operators. Daiwa Research estimates that BT will still have 90 per cent of local phone connections in 2000, and

that its share of revenue will have fallen only to about 80 per cent of the total.

As well as securing its future UK base, BT has set out to build a significant international business. Abroad, as at home, its ambition is to dominate. "We would expect to be number one in the globalisation of telecommunications," says Sir Iain. "A lot of it has to do with surprising the enemy, then dislocating the enemy, then advancing into his territory."

In June last year BT forged a \$5.3bn alliance with MCI, the second largest US operator. BT's strategy is to make Concert, its joint venture with MCI, the main provider of international telecoms services to multinationals, as corporate life becomes a true "global village" which can be serviced by single telecoms operators. The deal is an integral part of BT's superhighways vision, piggy-backing advanced business services onto networks operated mainly by other companies.

It faces tough competition abroad from AT&T, the largest US operator, and from the French and German state operators, which earlier this summer forged a 40bn alliance with Sprint, the third-largest US long-distance operator. But most observers put BT at least six months ahead of its international rivals in terms of concrete services.

Sir Iain says BT has a "nuclear deterrent" - the possibility of using its alliance with MCI to break the existing cartel of national telecoms operators which keeps international phone calls artificially expensive. To do so would be a huge gamble for BT, which gains from the existing arrangements. But the dividends for the first operator to bust the cartel could be equally large.

BT's global ambitions, however, may be held back by trouble on the home front. It faces deep discontent among its workforce amid large scale redundancies and continual management change. In the past four years BT has shed a third of its workforce - 90,000 employees, more than the total manpower of the Royal Air Force and Royal Marines combined. An employees' meeting earlier this week brought the discontent into the open - particularly among managers, who are bearing the brunt of this year's redundancies. One graduate trainee said that she had joined the company with 23 others, but the best ten had now left.

"There is a time of a maximum uncertainty, when people know the numbers but not what it is going to mean for them," says Sir Iain. But it is not past. Further massive redundancies are in the offing, and Sir Iain will give no guarantee that compulsory redundancies will be avoided.

Yet nobody believes that the clock can be turned back. Privatisation, competition and the convergence of media are facts of life, and BT's managers realise they have no choice but to ensure the company is able to take advantage of those changes - and exploit the arrival of the new superhighways. In a recent book examining BT's post-1984 experience, Mr Kenneth Baker, the minister responsible for privatisation, recalls "when I went to other European countries explaining liberalisation and privatisation, I was treated as a sort of lunatic... who was breaking up a natural monopoly". Ten years on, the lunatics are triumphing the world over.

*Joyce Wood, UK Telecoms: Springboard for the Future, FT Publications, 1 Southwark Bridge, London SE1 9HL, £48

MAN IN THE NEWS: Henry Gonzalez

More and less than the sum of his parts

Congressman Jim Leach, the Iowa Republican, is a former Rhodes scholar not above occasionally flashing his erudition. His disquisition opening the second day of the House banking committee's Whitewater hearings contained references to ancient Egypt, Copernican astronomy and the American revolution. Here, verbatim, is what he got in response.

"I will reserve for the record my observations on the history of the Ptolemaic world and point out to the gentleman that, in geometry, foremost mathematicians like Thales, who was most famous for saying that what one fool could do another could too, always in bringing forth the geometric basic truths, would always say QED - *quod erat demonstrandum* - that is, it remains to be proved and now it has been proved. And what the gentleman has said is, given his interpretation and prognosis of the witnesses yet to be heard or those that have been heard, and I was hoping that that would have been a summing up at the end of the witnesses."

That was pure Henry Barboza Gonzalez: the hint of scholarship, the mangling of the language, the iron fist in the courteous velvet glove. All these, and quite a bit more, including a legendary temper, were on display this week. The venerable chairman of the banking committee took it upon himself to ensure that the first congressional crack at the tangled skein known generically as Whitewater stuck to rules which he had been instrumental in crafting and which were designed to limit any damage to a Democratic president and White House. "This is not a trial," he declared on day one, and then set out to be both judge and jury.

It was a performance that drove Republicans on the committee, including Mr Leach, to paroxysms of frustration, as the chairman routinely gavelled them out of order and cut them off when their allotted five minutes of questioning had expired. It even elicited an editorial

in the nominally liberal New York Times, headlined "Censorship, Gonzalez Style", complaining that "the incoherent Texas has twisted the already stringent rules to make it virtually impossible for members to develop a continuous, productive line of inquiry into even the narrow matter at hand." Even some Clinton supporters wondered, privately, if he was not going too far.

Fitting Henry Gonzalez, 78 and in his 34th year in Congress, into a neat box is not possible. He may be variously and accurately described as a pure populist (he would abolish the Federal Reserve system, symbol of big money), a mild Democratic partisan (he wanted to impeach Presidents Reagan and Bush over the invasion of Grenada, Iran-Contra and the Gulf war), and a fearless investigator (into failed savings and loans companies, BCCI and Iraq).

He is also well-read (fond of mixing Shakespeare and Mexican poetry), incorruptible (he shuns the Washington social circuit and goes home most weekends), a loose cannon (capable of abrupt changes of mind) and an autocrat who more than once has decked a political critic with his fists. He is in fact all of the above, but contradictions render him both more and less than the sum of his parts.

He was born in San Antonio in 1916, five years after his family had fled Mexico to escape Pancho Villa's revolution. His Basque ancestors had come to Mexico in the 18th century and were big silver mine operators, with political clout, but he was raised in straitened circumstances not improved in the Depression. Still, he acquired engineering and law degrees and entered social work. In 1966, he became the first Mexican-American in more than 100 years to be elected to the Texas



senate, making a name fighting discrimination and poverty. After two failed bids for the governorship and Lyndon Johnson's old House seat, he won a special election to Congress from San Antonio in 1961 and has not faced a serious challenge since.

Perhaps taking a cue from another legendary Texas populist, Wright Patman, he made the banking committee, with its broad remit, the vehicle for his congressional career, being elected chairman in 1989. In this role, Mr Gonzalez's non-partisan side was apparent whenever financial malfeasance was involved: four of the five US senators censured for taking payments from Charles Keating, chairman of the defunct Lincoln Savings and Loan company, were Democrats, while Clark Clifford, the Democratic lawyer, was not spared over BCCI.

Curiously, whenever the committee is about its usual business, Mr Gonzalez runs it loosely, often losing procedural votes in spite of its 30-30 Democratic majority and sometimes appearing uninterested in the substance of legislation. One of the biggest admirers of his style as chairman used to be Jim Leach, the ranking minority member.

On Whitewater, Mr Gonzalez initially resisted congressional hearings, saying they would jeopardise inquiries by Robert Fiske, the special counsel. Earlier this year he told Mr Leach it would be "a cold day in Manila" before he allowed his committee to get involved.

chance to expose the Republican whitewash for what it is.

The problem for Mr Gonzalez is that he can only keep a lid on those Whitewater matters before his panel. Leaks from other committee staffs are rampant, though they have not amounted to much. Yesterday the Senate banking committee got into the act under looser rules and under the direction of Senator Dan Rostenkowski (coincidentally a Democratic member of the Keating Five and Senator Al D'Amato (the New York Republican irreverently known as Senator Quid Pro Quo).

Simultaneously, whatever the convincing protestations of innocence before the banking committee this week by Lloyd Cutler and Bernard Nussbaum, present and past White House counsel, trouble seems afoot at the Treasury. Roger Altman, the deputy, and Ms Jean Hanzen, the chief lawyer, both face tough questioning next week and either could end up as a sacrificial lamb.

Yet it would require a wild stretch of the imagination to compare the week's hearings, in terms of drama or content, to the great congressional fora of the past - dealing with Watergate, Iran-Contra and the Clarence Thomas nomination to the Supreme Court. Cable TV channels covered the hearings but the commercial networks did not, though yesterday they suspended all regular daytime programmes for a court appearance by O J Simpson.

Henry Gonzalez was not the only star of the week. His light-hearted foil, Congressman Barney Frank of Massachusetts, pricked Republican bubbles of outrage and definitely produced the best one-liner after exchanges featuring much legal jargon: "I am waiting to be shown a redemptive recusal."

But the words most often heard came from the chair. "The time of the gentleman has expired." It was, of course, not applied to himself.

Jurek Martin

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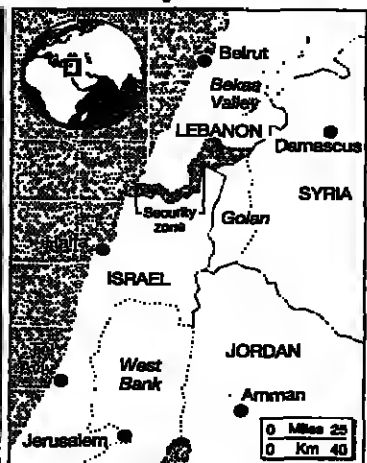
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Last tango in the Middle East

Mark Nicholson unravels Syria's role in the peace process



King Hussein of Jordan



President Assad of Syria

After the pomp and publicity of the White House garden ceremony on Monday, when King Hussein of Jordan and Mr Yitzhak Rabin, Israel's prime minister, signed an end to a 46-year-old state of war on a sunlit table, the focus of the peace process returns to the Middle East. This time it disappears behind the firmly closed doors of the presidential palace high on the hills overlooking Damascus.

Mr Warren Christopher, US secretary of state, is expected in Syria again as early as next week, just over a fortnight after his last round of talks with President Hafez al-Assad, the Syrian leader. The visit is a clear attempt to use the fresh momentum of this week's signing to push along the Syrian track of the three-year-old Middle East peace process, which has proved the slowest.

Mr Christopher will be hoping Mr Assad has read the signals from the White House. The Syrian leader, who is seeking much closer ties with the US and the removal of his country from America's list of state sponsors of terrorism, will have seen the warmth of the reception accorded King Hussein, who appeared to have erased the damage done to US-Jordanian relations during the Gulf war.

He will have seen that peace brings material rewards. In Jordan's case, US promises of military aid and debt relief worth \$700m. Mr Christopher might additionally hope that Syria will feel left behind in the peace process, and that Mr Assad might quicken his step in the negotiations.

For as Mr Shimon Peres, Israel's foreign minister, said yesterday that the sides still remained far apart: "Right now it's not a tango, it's not a dance between the two [parties]."

Mr Assad will have digested these developments, though close diplomatic and academic observers doubt whether he is susceptible to pressure on the basis that he is being "left behind". One senior western diplomat suggests that a man famous for sitting ramrod-straight for hours during diplomatic meetings to convey the impression of inviolable strength and resolution would not give any sign of being hurried, even if he felt it.

In any case, he adds: "Assad's patience is legendary, and if Syria has already waited 37 years to get back the Golan Heights, then why not wait a few more if that's what it takes to get the right deal?" The area between Israel and Syria, which Israel has occupied since the 1967 Arab-Israeli war, forms the heart of the antagonism between the two countries.

Further, while King Hussein accelerated his talks with the Israelis partly to prevent the risk that his kingdom might be marginalised in the peace process, Mr Assad harbours no such worries. He knows that both Israel and the US consider Syria the crucial component in any overarching regional peace deal. The other headline Middle Eastern events of the past week amply suggest the reasons why.

And why the Israeli-Syrian track of the talks is proving the most complex and slowest to show progress. The two bombings against Jewish targets in London this week, which left 19 wounded, and the car bomb which killed 96 in an anti-Jewish raid in Buenos Aires on July 18, were brutal reminders that deadly and efficient opponents both of Israel and of the peace negotiations remain at large. Whether the Lebanese militant

Islamic group Hizbollah was behind some or all of the attacks, or whether the plots were ultimately hatched in the Iranian capital, Tehran, as Israel charges, is still to be discovered. There is reason to suspect the Iranian-backed Hizbollah, despite the organisation's denials of involvement in any of the attacks. It has claimed responsibility for a bombing of Jewish targets in Argentina before, to 1992.

Moreover, it swears only last month that it would use its own "long arms" to exact revenge for an Israeli attack on a Hizbollah training camp deep in the Bekaa Valley in east Lebanon, in which 30 of its fighters were killed.

As long as Iran remains hostile to any peace with Israel and capable at least of inspiring acts of anti-Jewish terror, there is little Israel or the US can do to banish the threat of such outrages altogether. But the possibility of neutralising, or at least containing, such threats under the present peace process lies largely in Mr Assad's hands.

For one thing, Mr Assad has shown that he can effectively contain Hizbollah's threat to Israel from south Lebe-

non. While the group is supported by Iran, its main camps in Lebanon operate largely in Syrian-held areas of the Bekaa Valley and its arms must pass through Damascus. Last year, when Israel pounded south Lebanon for a week in retaliation for Hizbollah rocket attacks into northern Israel, Mr Assad's intervention secured a "gentleman's agreement" that such attacks would cease. That agreement has essentially held.

While Israeli troops remain inside their self-declared 15km-deep "security zone" in south Lebanon, neither Syria nor the Lebanese government will act to deprive Hizbollah of arms, which the group says it is using against an occupying force. But few in Damascus or Beirut doubt that if and when an Israeli withdrawal is agreed under an eventual regional peace plan, Lebanese troops, backed by the 35,000 Syrian troops in the country, will disarm and close down Hizbollah as a violent threat to Israel.

Moreover, it is widely thought that Mr Assad would be able to exert his authority over Hizbollah without damaging his friendly relations with Iran. The Iranians have few friends among Arab states and are antithet-

cal towards making peace with Israel. "The Iranians have already said that, if Syria made peace, Iran would continue to treat it differently from the other Arab states such as Egypt," says Mr Shabram Chubin, an Iran analyst at the Institute of International Studies in Geneva.

Several European diplomats in Damascus believe Syria has already reached an understanding with Iran that Tehran would cease to provide military support for Hizbollah in the event of a Syrian-Israeli peace.

Syria's potential role as an intermediary and interlocutor with Iran is almost certainly something Mr Assad hopes the US will acknowledge and, perhaps, reward.

His influence over Hizbollah is a bargaining card that Mr Assad is playing cannily as he negotiates with the Israelis for their withdrawal from the Golan Heights. In return, Israel is seeking a Syrian commitment to a "full" peace of open borders, trade and normalised diplomatic relations.

Finding a formula to resolve the impasse over a "full" Israeli withdrawal from the Golan Heights in exchange for a "full" Syrian peace with Israel is in itself a considerable diplomatic challenge. The return of the Golan is paramount for Mr Assad. But a solution to this problem alone is unlikely to satisfy him if it does not also bring a wider acknowledgement of Syria's importance as a regional power. His price for containing Hizbollah in any peace is likely to be some US-Israeli recognition of continued Syrian influence in Lebanon.

The detailed progress of negotiations between Syria and Israel is difficult to interpret while both sides remain silent. But Mr Christopher's return to Damascus indicates that he believes Mr Assad is prepared to move the talks forward. For Mr Assad to receive him suggests Mr Christopher is not arriving empty-handed.

US promises of improved relations and material aid, though, are unlikely to bring Mr Assad to the White House. According to one western ambassador: "Assad would never be willing to give up certain political principles just to get some money."

John Lloyd examines the power of television to help create a consumer society in Russia

The Possessed

In an advertisement for the collapsed MMM finance house - still running on Russian television as thousands of jittery investors crowd about its out-of-control offices seeking to cash their shares at virtually any price - Lenya Golubkov, the commercial's central character, is in California with his brother Ivan. They are at the football match between Russia and Argentina which destroyed the former's dreams of taking the World Cup.

The commentary is jokey, the camera shots are quick and quirky. The main point is that Ivan is in despair - not over the Russian team's performance, but because Lenya, who has funded the trip, has done so because he has put his money into MMM shares while Ivan, a working stiff all his life, still has nothing.

As General Electric hired a clean-cut, right-thinking, second-rank actor named Reagan with which to identify its products in the 1950s and 1960s, as Oxo built up the middle-class English personality of Katie to drive home the essential goodness of its product, so Bakhyt Kilbayev, the Kazakh director of the Lenya series created a one-representing-all working-class character, whose job as an ex-cavewoman driver is celebrated for a life of wealth and leisure through his embrace of MMM.

MMM, launched by Mr Sergei Mavrodi, had huge success this year by selling shares in itself. It quoted its own rocketing share prices - from 1,600 roubles (about US\$1) in February

to more than 100,000 roubles this week to an ever-widening circle of buyers. Whether they numbered the 2m which the Kommersant Daily estimated this week or the 10m claimed by Mr Mavrodi, the figure is still larger than the Russian army. Since MMM seemed to have no means of making money other than the constant selling of its rapidly-rising shares, it was widely assumed to be a pyramid company funding new business with old receipts. After a triple salvo of government warnings on its solvency it admitted its virtual collapse yesterday, telling investors it had nearly run out of cash and offering them a paltry 960 roubles (US\$40 cents) per share.

However, Mr Mavrodi has not given up. He has launched a political campaign against the government itself, threatening to stir his shareholders to revolt, or at least to sign a petition calling for a referendum on the government's competence. Significantly, he used Lenya in this piece of *lese majeste*: "So the authorities don't like Lenya Golubkov and Marina Sergeyevna (a family friend)? But do Lenya Golubkov and Marina Sergeyevna like these same authorities?" - an explicit effort to equate Lenya and Marina with Russia's anti-government citizenry.

Lenya, as projected by Mr Kilbayev, is a figure in transition - as most Russians are. A simple if shrewd man in an extended family, his "life" is crazy, impulsive, and when not caught up in outings to Calif-

ornia and to Paris, is lived largely on and around the couch from which he and his extended family watch TV.

Putting a TV in the commercials as well as the commercials on TV showed the instinctive mastery which has distinguished the campaign. In the post-Soviet period, the Russian channels old and new are a riot of raucous game shows, western soap operas and films, and the remains of the rambling Soviet talk programmes - and lengthy, frequent commercials, of which MMM's have been the most frequent and the most vivid. Vivid most of all because - in contrast to the many in which seek young men in dinner jackets and women in shimmering, close-fitted gowns slithering around Japanese jeeps - it is both a slice of life in the apartment block, and a send-up of it. It endorses both the common feeling that we are all living through chaos



MMM investors outside the company's Moscow offices, where they were hoping to sell their shares

and to end Mr Chernomyrdin's power by the force of his aroused shareholders. Mr Mavrodi's audacity is, through Lenya, to identify his TV character with the undoubtedly deep feelings of resentment and frustration felt by ordinary citizens when confronted with a country whose prestige and power has been cut at a stroke, whose economy continues to decline, where crime is exploding and fear of it is pervasive. And where the figures of authority are routinely dismissed as venal and uncaring.

Lenya also touched a wide range of Russian references. An anonymous psychiatrist, writing in the weekly *Sovetskoye Sekretno*, said that in his couch-bound idleness and his production of fantasies, Lenya was a TV recreation of

defences, and goes on the offensive of a consumption 19th-century novel by Goncharov, one who gave his name to the phenomenon of Oblomovism, or dreamy idleness.

But in his working-class past and his escape from it, Lenya proposes to everybody the possibility of overthrowing themselves from the previously powerful, state-promoted myth of Soviet Citizen - proud yet obedient, militant but in the direction determined by the party, having surpassed class, want and individualism in pursuit of an ideal (and in part a reality) of collective, all-encompassing security and social and intellectual identity.

In its place is the crazy, self-interested, wealth-pursuing world of Lenya Golubkov, where luck and nerve bring rewards to oneself and one's own. The family was always a shelter for individuals against the relentless collectivism of Soviet life. Now it drops its

defences, and goes on the offensive of a consumption 19th-century novel by Goncharov, one who gave his name to the phenomenon of Oblomovism, or dreamy idleness.

Lenya Golubkov will last as an influence even though the company which gave him birth has folded. He is the media image of the Russian coping with the latest oppression, that of the world of consumption with its attendant images, myths and falsehoods, its new liberations and new enslavements. He is the proletarian turned consumer, the object of history struggling to be its subject. Mr Mavrodi's threat to mobilise millions of Lenya's against the state authorities is likely to be the last throw of a gambler with the chips stacked against him. But he has helped unleash something bigger even than the dreams he encouraged, and has now betrayed.

LETTERS TO THE EDITOR

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Investment most pressing economic issue

From Mr T J Potts, M Taylor, and D A Vaughan.

Sir, As large suppliers of capital equipment in the UK, we have noted with interest the attention given this week to the subject of investment and are delighted that, at long last, the matter is becoming more important. "CBI urges tax changes to aid investment", July 28.

Given the fact that we have such beneficial economic conditions, it should be of great concern for the longer term that the Confederation of British Industry trends survey

showed such a small number of manufacturers planning to invest in plant and machinery in the future. The UK has always been the poor relation of the developed economies as far as investment is concerned. UK machine tool manufacturers are doing extremely well on the back of strong growth overseas, while the UK market remains relatively poor. With out vitally needed investment in high technology, plant and equipment, UK manufacturing cannot hope to close the 25 per cent gap in productivity which the government identified in

the recent white paper. While a highly skilled workforce is of course essential, it becomes academic if it has to work on outdated equipment. We agree completely with the need to be competitive, to be benchmarked against our foreign competitors and the need to increase our productivity, but all are fundamentally relative to investment.

Manufacturing investment should be the most important economic issue facing the UK today. The chancellor should use his forthcoming budget to address the UK's investment

deficiency as low interest rates and inflation are obviously not sufficient for growth.

S C Vaughan, president and managing director, Hahn & Kolb GB M Taylor, vice president and managing director, Bridgeport Machines D A Vaughan, vice president and managing director, Sog Machinery M J Legg, managing director, Hitachi Seiki UK, c/o Machine Tool Technologies Association, 62 Baywater Road, London W3 3PS

Air France support should be decided on a commercial basis

From Dr Mike Walker.

Sir, In your editorial, "Flight plan for Air France" (July 25), you argue that state aid to Air France should be tied to a deadline for the full privatisation of Air France. Why wait

until after the provision of state aid? As you rightly say, the lack of a market for shares in Air France makes it difficult to judge whether state aid is being granted on commercial terms. However, if Air France

were privatised, the market could decide whether or not it was a sensible commercial decision to invest another FF20bn in Air France. If it is a sensible commercial decision, then the funds could be raised

on the markets; if it is not, then the funds would not be forthcoming. Mike Walker, Lezard, 35-36 Alfred Place, London WC1E 7DP

Michael Skapinker on Forte's renewed effort to take full control of the Savoy group Knives out at heartbreak hotel

New money against old. A thrusting immigrant family takes on England's most venerable institutions. The drive for profit collides with the preservation of genteel tradition.

It is not just newspapers which have discerned elemental conflicts in Forte's 13-year struggle to acquire the Savoy group, whose hotels include the Savoy, Claridge's and the Connaught. The protagonists appear to enjoy casting themselves in these roles too.

They did so during the initial eight-year takeover battle, which culminated in Forte acquiring 68 per cent of Savoy's shares but only 42 per cent of the vote. They continued to do so, usually in private, during the uneasy truce after Forte's agreement in 1989 not to raise its stake for five years in return for two seats on the Savoy board.

And in the days before this week's Savoy board meeting, which announced Forte was seeking allies among smaller shareholding trusts, leaders of both camps gave further insights into how they like to be seen.

At a hoteliers' luncheon, Mr Rocco Forte, chairman of Forte and son of its Italian immigrant founder, said he had no difficulty passing the "cricket test" set by Lord Tebbit, the former Conservative party chairman, sitting beside him. Italy, he said, did not play cricket.

The Fortes are proud of their passionate loyalty to two countries. Rivals, Forte and Shepard Italy might not play cricket, but it does play football. Lord Forte, Rocco's 55-year-old father, says he would "cheer Italy" if they played England at Wembley and England if the game was in Rome.

The leaders of the Savoy have no need of such fine distinctions, being firmly rooted in British soil. Mr Giles Shepard, Savoy's managing director, this week told a tourist gathering of his memories of picnics on the rocks of Stonehenge, before motorways and public toilets damaged this ancient English mystery.

When Lord Forte said in his autobiography that the father of Sir Hugh Wontner, Savoy president until his death in 1982, was of Hungarian origin, he received an angry letter from the Savoy's lawyers. Lord Forte admitted his mistake.

None of the insults traded during the takeover battle of the 1980s have been forgotten and few have been forgiven. It was not just Mr Shepard's assertion that stewardship of Savoy's hotels could not be entrusted to "a vast combine which, among other things, runs service stations on the main arterial roads".

While ranks mere was Sir Hugh's remark to Mr Forte after Forte's initial failure to win control that "I've always thought Italians made good hotel managers."

Now, however, long-time observers of the battle believe Forte wants to reduce the acrimony.

Instead of hickering, the whole Savoy board should

recognise that the running of the group can be improved. Savoy made pre-tax profits of only £755,000 last year on turnover of £83m, after recording a loss of £1.4m in 1992.

Mr Forte has put to one side his desire to place Forte's most exclusive hotels in a joint company with the Savoy. Despite reports that Forte wants to put the Savoy hotels into its international booking system, detailed discussions on this have not taken place.

The City was wrong in its view that there was no legal reason for Savoy to make this week's announcement that Forte was seeking an alliance with minority shareholding trusts. The Savoy board's legal advice was that the statement had to be made because speculation was rife.

If Forte wants to proceed on a more friendly basis, some industry observers say it has a strategic way of doing it. At this week's board meeting, Mr Forte blocked the appointment of Sir Roger Gibbs, chairman of the Wellcome Trust, as Savoy chairman. He even refused to agree to have Sir Roger on the board as a non-executive director, saying no changes should take place during discussion of the group's future.

Mr Forte's attempt to win over the trustees - who have enough voting shares to give him overall control - seems his best option at the moment. The 1989 peace agreement specified Forte would not increase its stake for five years and would give 12 months' notice if it wanted to do so.

The 12-month notice requirement remains even after the five-year period ends this November. Giving notice would cause the share price to rise, making a purchase more expensive. With the trustees' backing, Mr Forte would win control without having to spend another penny.

There have been times when Mr Forte would have been happy to sell the Savoy stake, but there have been no buyers. The Aga Khan is believed to have expressed an interest but nothing came of it.

Forte has tried to buy other luxury hotel groups instead. It was the favourite to take over Ciga, the Italian chain, but was defeated earlier this year by IRI Sheraton of the US. It is currently bidding against Accor of France to buy Meridien, the French chain.

Apart from the prestige Savoy would bring to Forte, there is also the satisfaction it would give to its founder. Lord Forte proposed to his wife in the Savoy and spent part of his honeymoon there. Nevertheless, in his autobiography, Lord Forte said that, while any hotel group would be proud to own such prestigious hotels, "I don't need the Savoy Group to crown my career. I have enough already of which to be proud."

While that is certainly true, 13 years is a long time to spend chasing something one does not need. Forte is unlikely to walk away now. Whether in acrimony or at peace, the two sides appear stuck with one another for some years yet.

Not on a ballot paper

From Mr John A Newbould.

Sir, In common with many shareholders who bought shares in the privatisation of the water industry, I have just received from Yorkshire Water the annual report, notice of the annual general meeting and the form of proxy. I was extremely concerned that, on the form of proxy, the company had authorised the words "Not recommended by the directors" against the side of item 7, "Election of Mrs D Scott".

In common with Mrs Scott, who made a statement advocating her election, the directors of the company have had an ample opportunity to make a statement of their reasons for

opposing the resolution, in the notice of the annual general meeting.

In my opinion, to add such a statement to a ballot paper is an abuse of the traditions of the ballot procedures in all elections held in the UK.

If such practices are to become common place within public company elections, I trust that other small shareholders will join with me in pressing parliament to amend the Company's Act to outlaw such statements on the ballot paper.

John A Newbould, Tapton House, 30 Moorlands, Wickersley, Rotherham S66 0AT

Flyers should also smarten up

From Ms Rita Zanon.

Sir, For once I agree wholeheartedly with Clement Crisp ("The decline and fall of elegance", July 18). I also think the scheme proposed by Mr David Savers (Letters, July 22) could also be applied to airline passengers, but perhaps without the evening dress -

although this is far preferable to the vests, shorts and training shoes now regularly in evidence. Rita Zanon, director, The Addison Tool Co, Elliott House, Victoria Road, London NW10 6NY

COMPANY NEWS: UK

H&C cuts plantations link with \$273m sale

By Peggy Hollinger

Harrisons & Crosfield yesterday closed the book on almost a century of history with the announcement that it had sold its Indonesian plantation business to a group of four Indonesian businessmen for \$273m (£176m) cash.

The disposal has been expected for some time. Harrisons, which began life in the 19th century as a tea trader, has been steadily severing its colonial links since the late 1980s.

Harrisons' 19 Indonesian estates, producing palm oil, rubber, cocoa, copra, tea and coffee, are by far the most profitable of the company's remaining plantations. They

were nationalised by the Indonesian government in 1964, but returned to Harrison's ownership in 1969.

Last year they contributed £18.1m of the reported £24m in plantation operating profits.

The group retains a 57 per cent stake in palm oil plantations in Papua New Guinea.

Mr Bill Turcan, the new chief executive, said Harrisons had got the best possible price against a background of rising palm oil prices.

The proceeds will be used to reduce short-term debt, he said, with the balance put on deposit. If the sale had been completed in the last financial year, debt would have been reduced to £91m to give gear-

ing of 14 per cent compared with the reported 48 per cent. Earnings would have been diluted by about 0.5p.

The company will be publishing pro forma accounts for shareholders when it reports its interim results on Wednesday, Mr Turcan said.

The disposal is part of Harrison's strategy to reposition its business.

However, it was also forced on the group in part by the Indonesian president's decree that at least 20 per cent of the business had to be sold to Indonesian nationals. Harrisons had been preparing for a flotation in 1995, but decided to sell the whole operation after several approaches.

Gt Southern up 11% as SCI buys more shares

By Simon Davies

Great Southern Group, the besieged US funeral company, yesterday announced an 11 per cent increase in interim profits and urged shareholders to ignore the current offer by Service Corporation International, the US funeral group.

However, SCI executives will fly into London on Sunday night presaging an expected increase in their 600p a share bid for Britain's third largest funeral operator.

Mr Bill Heiligbrodt, president of SCI, described the latest document by Great Southern as "pathetic". His company bought a further 1.6 per cent of the company's convertible shares yesterday, showing SCI's commitment to the bid.

However, the bid remains opposed by JD Field, Great Southern's largest shareholder, which owns 56 per cent. Members of the Field family, and the trustees which control 70 per cent of JD Field, met yesterday to discuss SCI's offer.

Mr Christopher Stainforth, managing director of corporate finance at Guinness Mahon, JD Field's advisers, said: "Everyone is agreed that anything close to 56 is just not enough."

Great Southern's £3.82m (£3.45m) pre-tax profit for the half year to June 30 was set against a 2.5 per cent decline in the mortality rate, and operating profits from its core business of retail funeral services fell to £2.31m (£2.38m).

The crematoria and cemetery operations increased profits to £1.12m (£1.02m), but the main contributor to growth was its pre-paid funeral business, Chosen Heritage. Great Southern sold 10,500 (£9,600) funeral plans in the first half and has started booking profits from the actuarial surplus of funds held from these plans, set against the anticipated costs of the funerals. This contributed £74,000 (£52,000) restated.

Earnings per share were 19.7p (17.6p) and an interim dividend of 4.5p (4p) is declared. An increased final is forecast for a 14p (12.2p) total.

SCI only records profits from its "pre-needs" policies upon completion of the actual burial, and it has attacked Great Southern's accounting treatment.

SCI has another week to increase its offer.

Future worries affect the present

John Gapper on the clearers' prospects in the wake of Lloyds' results

On the basis that it is better for a company's share price to travel hopefully than to arrive, yesterday was a predictably bad day for UK banks. Lloyds' arrival at the point of a high return on equity, huge cash flows and a large dividend rise was greeted by a sharp fall in its shares.

The interim reporting season of the clearing banks, which was started by Lloyds and will continue next week, with Abbey National and National Westminster, will show an industry in exceptionally good shape. But it will also indicate reasons why most investors think the future will be tougher.

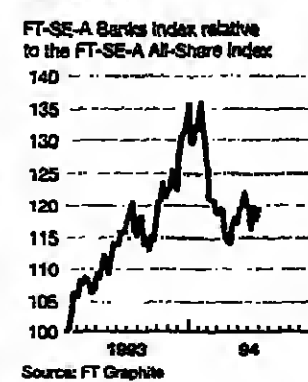
If there were no worries about that, Lloyds' 22 per cent return on equity would appear manna from heaven. "You rub your eyes at the returns," says Mr Chris Ellerton, banking analyst at SG Warburg. "The sector cannot sustain a return like that, or everyone would want to start a bank."

One reason that the banks' results are likely to be so good is that bad debts are now falling quickly. The credit quality of UK companies improved strongly in the first half - shown by the fall in Lloyds' specific bad debt provisions for large corporate lending to £7m, against £8m.

Bank shares have already fallen sharply this year. This is largely because of tightening US monetary policy, which brought an end to US interest rate falls. The shares of HSBC Holdings - parent of Midland Bank - and Standard Chartered have also been badly affected by unsettled Asia Pacific markets.

The shares have also responded adversely to the belief that banks face testing times. They could ratchet up earnings during the recession by increasing charges and loan margins. But analysts and investors now think that their

UK banks



high profits and capital will be frittered away in competition. Lloyds' results reinforced this impression in a number of ways:

- The bank's loans and advances to customers fell from £39.2bn at the year-end to £38bn at the end of June. Loan demand has been subdued despite the recovery, although Sir Brian Pittman, Lloyds' chief executive, said a rise in demand for loans was likely to give the bank "a tail-wind" by the year-end.
- It added a further half percentage point to its tier one ratio of capital to risk-weighted assets, taking it to 7.1 per cent. It could be taken to less than 5 per cent by the Cheltenham & Gloucester acquisition, but it is a sign that other banks will soon build up capital well in excess of their needs.
- Fees and commissions were flat, rising only from £566m to £568m. The rise in fees was one of the main methods by which banks improved operating income in the early 1990s, taking the opportunity presented by either losses or slim profits to re-price services to companies and individuals.
- Net interest income in the UK retail banking and insurance business fell marginally, from £661m to £655m. The bank's mortgage balances grew faster than the industry as a



Sir Robin Ibbes (left) and Sir Brian Pittman: possibility of lower prices for customers to increase market share

whole, but suffered an erosion in margins. Sir Brian emphasised the extreme price sensitivity of the mortgage market.

Taken together, analysts argue that this means banks are building up cash for which they have no use. It will either find an outlet in acquisitions similar to Lloyds' purchase of C&G, or will be handed back to shareholders, or will be used to pay for price competition to gain market share.

A lot of the charges they stuck on in the recession will not be able to hold them," he says. Mr Ellerton says that lower cost financial services producers such as Lloyds and C&G will initiate price wars because they will be able to bear competition more readily.

This provides an uncertain future for bank dividends, after the large increases paid out by several at the full-year.

Such is the expectation generated by banks' capital strength that Lloyds' 14 per cent rise was greeted with derision yesterday. That will not have comforted the banks yet to report.

Retail growth helps BAA to £111m in first quarter

By Simon Davies

Rapidly increasing retail income helped BAA turn in an 11 per cent rise in pre-tax profits to £111m for the first quarter to June 30.

Turnover rose 5 per cent from £291m to £306m.

The largest increase came from retail revenue, up 8.5 per cent at £126m, in spite of the ongoing programme of redeveloping terminal facilities.

The company has completed the extension of the retail areas at Terminals 3 and 4 at Heathrow, where double digit increases were achieved.

It is now implementing a rolling expansion programme which will provide it with 900,000 sq ft of retail space by 1997. It currently has 600,000 sq ft of shopping space.

Passenger numbers grew by 6 per cent to 22.1m during the quarter, and the company, which operates seven UK airports, is predicting that traffic growth will be maintained at between 5 and 6 per cent for the current year.

In the most recent set of statistics, for June, growth in passenger throughput had accelerated to 9 per cent.

Sir John Egan, chief executive, said: "Our strategy of developing the core business, building revenue and controlling costs has enabled us to capitalise on this growth and this confirms our confidence in the prospects for the next nine months and beyond."

He said Gatwick had recorded its strongest growth for three years, due to increasing charter traffic.

Revenues from airport charges rose 5.6 per cent to £117m, while airport property income improved 11 per cent to £40m (£38m), as new facilities came on stream.

Capital expenditure increased by 73 per cent to £88m, reflecting the £1.4bn spending programme announced earlier this year. This included a substantial increase in spending on the £300m Heathrow Express, the high speed rail link to London's Paddington station due for completion in 1997.

Earnings per share were 8p (7.2p).

The share price fell 20p to 953p on profit taking, but analysts maintained their full year forecasts, with expectations of about £370m for the year to end-March.

Tesco considers next move

By Neil Buckley

City analysts were divided yesterday over whether Tesco was likely to re-enter the takeover battle for Wm Low following J Sainsbury's bid of 305p a share for the Scottish supermarket group on Thursday.

After Tesco's failure to respond immediately with a higher bid, and reports that its directors and advisers were locked in meetings yesterday, there were suggestions that the UK's second-largest food retailer was wavering over whether to raise its offer.

Tesco is thought to have expected a bid from Sainsbury

of about 230p a share, and has been wrong footed by the 305p offer, which valued Wm Low at £210m - a 36 per cent premium to Tesco's original agreed offer of 225p a share, worth £154m.

"I don't think Tesco had really thought through the implications of Sainsbury coming back at that price," said one analyst.

A source close to Tesco hinted the company was anxious not to be seen to have been pushed into overpaying for the 57-store Wm Low group.

Most analysts, however, still believe Tesco will make a bid of about 325p a share on Monday or Tuesday. That would

leave Sainsbury with the choice of whether to push the price to 350p or more.

Others are convinced Tesco will itself bid 350p in an attempt to guarantee victory.

"I think Tesco will bid 350p on Monday," said Mr Nick Bubb, retailing analyst at Morgan Stanley. "I am beginning to wonder if Sainsbury would then come back at 400p."

Shares in Wm Low fell 1p to 323p.

However, shares in Wm Morrison, the north of England-based supermarket group, gained 54p to 139p yesterday amid speculation that it might become a takeover target.

Evans Halshaw buys more dealerships for £5.7m

By Paul Chesworth, Midlands Correspondent

Evans Halshaw, the motor distributor, is expanding further from its West Midlands base with the acquisition for £5.7m of GT Cars Group, a private company with seven dealerships in the east Midlands and South Yorkshire.

The purchase, foreshadowed in June when Evans Halshaw launched a £25m rights issue, completes an acquisitions programme which, in the last year, has more than doubled its number of dealerships to 90.

"We need to spend the next 12 to 18 months consolidating what we've got," said Mr Geoffrey Dale, chairman.

Consideration for GT is £750,000 in cash, £2.7m in loan notes and the issue of 495,050 new shares at 454p each, a premium of 11 1/2p on yesterday's closing share price.

In a separate transaction, Evans Halshaw is paying £1m in loan notes for the freehold of three sites which GT holds under lease.

In the 1993 year, GT reported pre-tax profits of £662,000 on turnover of £41.2m.

Tottenham buys £2m star

Tottenham Hotspur, the quoted north London football club, has announced its second big acquisition in a week with the £2m purchase of Jürgen Klinsmann, the German striker.

The deal follows negotiations between Mr Alan Sugar, the Tottenham chairman, and the Monaco club where Klinsmann played until the end of last season.

Earlier this week the club agreed to pay £2.6m for Dănuțescu, the Romanian striker.

Both deals will be financed from existing cash resources and banking facilities.

Lower bad debts boost N of England Society

By Alison Smith

The society experienced a net outflow of funds totalling £12.6m, against an inflow of £28.3m. Total assets rose slightly over the six months to £1,508m at the start of the year to stand at £1,514m, compared with £1,490m a year earlier.

Mr Ronald Shiel, chairman, said that the merger with Northern Rock, the 11th largest society, had taken much time and effort since its announcement at the start of May.

He acknowledged that activity in the lending and savings market had been at a low level, and said that competition had been intense for what business was available.

Conran loan to Fitch approved

An extraordinary meeting of Fitch, the design company, yesterday approved the provision of a loan facility of £325,000 from Sir Terence Conran to the company, and granted him options to subscribe for up to 2.5m ordinary shares - 7 per cent of the issued capital.

Sir Terence already holds 25 per cent, while the French Brand Trust owns 35 per cent.

Senior managers will also have the option to purchase up to 30 per cent of the company from Sir Terence and the Brand Trust.

The move was in order to "foster a spirit of partnership between shareholders and key individuals", directors said.

Fitch cut pre-tax losses from £3.98m to £3.18m for 1993.

Beacon Investment Trust raises £19m

By Bethan Hutton

A new investment trust specialising in small companies traded under Stock Exchange Rule 4.2 - until recently known as Rule 55.2 - has raised £19m through an institutional placing.

The Beacon Investment Trust is to be managed by Rutherford Asset Management, joining a stable of trusts concentrating on smaller companies. Beacon will seek to exploit the opportunities created by London's commitment to develop the Rule 4.2 market, seen as a successor to the USM.

Shares in the trust will be eligible for inclusion in personal equity plans, which should boost its appeal to private investors.

The shares have been issued at 100p, having an initial net asset value of at least 96.5p, with one warrant attached to every five shares. The trust will have an initial life of 10 years. Dealings are due to start on August 8.

The Rule 4.2 market is a more lightly regulated and cheaper home for small company shares than the Official List. It originally operated by means of matched bargains, but there is growing involvement by marketmakers. Companies using the trading facility include football clubs and Westab.

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Bow Valley Energy Inc.

IMPORTANT NOTICE

to holders of
Common Shares and
Class Z Preferred Shares

Bow Valley mailed a Notice of Special Meeting of Shareholders, Notice of Pardon and Management Information Circular to the holders of Common Shares and Class Z Preferred Shares of Bow Valley (collectively, "Bow Valley Shareholders") in connection with a Special Meeting of Bow Valley Shareholders to be held on August 5, 1994 to consider, among other things, an Arrangement involving Bow Valley and Talisman Energy Inc. In that Management Information Circular, Bow Valley advised that it would publish the Talisman Reference Price (as defined in the Management Information Circular) that would be applicable to the proposed Arrangement, as soon as possible after that reference price was determined.

The Talisman Reference Price was determined on July 27, 1994 to be based on the date for the Special Meeting being August 5, 1994.

For purposes of the proposed Arrangement the corresponding Share Offer Price and Cash Offer Price (as defined in the Management Information Circular) were determined to be \$25.00 and \$25.00, respectively.

Further information regarding these determinations may be obtained by contacting Bow Valley's Investor Relations Department, at 1-800-462-3166.

Gordon A. Milne
Senior Vice-President and
Chief Financial Officer

Rise at BAT Australian offshoot

WD & HO Wills, the Australian cigarette manufacturer controlled by BAT Industries, announced a 21 per cent increase in profits before tax and exceptional in the six months to end-June, to A\$42m (£20.3m), against A\$34.8m.

Turnover for the company, which is quoted separately on the Australian stock market, increased from A\$444m to A\$474.7m. Net profits were A\$27.2m, compared with losses of A\$7.17m after taking account of A\$49.2m of exceptional items.

Mr David Thomas, managing director of Whitbread Restaurants and Leisure, said the Moredo chain of steak restaurants would complement Whitbread's Churrasco business.

Whitbread

Whitbread has agreed outline terms to buy a German restaurant chain which will give the brewing, retailing and leisure group a portfolio of sites in every German city by adding 26 outlets to its existing 37.

Mr David Thomas, managing director of Whitbread Restaurants and Leisure, said the Moredo chain of steak restaurants would complement Whitbread's Churrasco business.

Electric & General

Electric & General Investment had a net asset value of £21.23p at May 31, a 14 per cent improvement on the 185.8p of a year earlier.

Earnings per share for the year were 3.3p (3.21p). A final dividend of 1.65p (1.6p) makes a total of 3.2p (3.1p).

Kleinwort High

Net revenue for the year to end-June at Kleinwort High Income Trust rose from £2.7m to £2.41m, to give an increase in earnings per share from 7.89p to 8.06p.

Forminster

Forminster, the clothing manufacturer, lifted pre-tax profits from £2.2m to £2.4m for the year to April 30, on turnover up from £23.8m to £25.6m.

The company is seeking to increase sales by "organic growth, or acquisition, whenever there is an appropriate opportunity", said Mr Ronald Gulliver, chairman.

Wm Ransom

A legal settlement of £325,000 helped William Ransom increase pre-tax profit by 13 per cent, from £817,000 to £925,000, despite a fall in turnover from £7.19m to £6.83m.

The settlement related to an abortive move to Religswade for the pharmaceutical products maker.

Earnings per share were 4.18p (3.46p). A final dividend of 1.22p gives a total of 1.98p (1.90p).

DIVIDENDS ANNOUNCED					
	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Electric & Gen	1.65	Sept 23	1.6	3.2	3.1
Forminster	11.35	Sept 29	10.04	15.96	14.08
Great Southern	4.4	Oct 5	4	-	12.2
Greenwood Inns	2.51	Oct 7	2.25	4.75	4.25
Lloyds Bank	7.5	Oct 13	6.9	-	22.1
Zettlers	4.5	Oct 4	4	8.5	8

Dividends shown pence per share net. TON increased capital. \$USM stock.

INTERNATIONAL COMPANIES AND FINANCE

Two US healthcare groups agree to \$720m merger

By Richard Waters
in New York

The spate of mergers among health maintenance organisations (HMOs) in the US continued yesterday with the announcement of a \$720m all-stock merger of two groups with operations concentrated in western states.

Foundation Health, a company based in California which has recently concluded a series of acquisitions in the south-east, said it had reached agreement to acquire Arizona-based InterGroup Healthcare. It is to pay \$444m in stock for Thomas-Davis Medical Centres, which owns 68 per cent of InterGroup. In addition, Foundation is offering a choice of ordinary

stock or convertible preference shares to holders of the remaining InterGroup shares.

Together, the two would cover 1m individuals through their HMO operations and have annual revenues of \$2.4bn, creating a company in the top dozen of that US sector.

HMOs are rapidly replacing traditional health insurance companies in the US. Unlike insurers, they actively manage the provision of healthcare to the individuals they cover in order to bring down costs.

The wave of acquisitions in the sector marks an attempt by the bigger organisations to spread their administrative and marketing costs across a bigger customer base, to increase their bargaining

power with healthcare providers such as hospitals and to extend their networks into other regions in the country.

The InterGroup deal appeared to mark the growing competition to acquire smaller HMOs. The price being offered was well ahead of market expectations the day before, when InterGroup confirmed it was in discussions with an unnamed bidder. Yesterday morning, its shares rose 10% to \$68 after a jump of 8% the day before.

Foundation said the stock it had to issue in the deal would cut its earnings per share by 35 cents next year. But it expected lower costs and the opportunity to sell new services to InterGroup's customers.

Groupe Bull reduces loss to FF843m in first half

By David Buchanan in Paris

Groupe Bull, the state-controlled French computer company, yesterday said it had brought its net current loss for the first half of this year down to FF843m (\$152m), or less than half its FF1.98bn loss for the same period of 1993.

Mr Jean-Marie Descarpentries, president, claimed his goal for the group to break even on its operational results for the whole of 1994 "now appears achievable", and Bull was "now positioned for privatisation".

The European Commission has still to rule on whether the French government can go ahead with a FF2.5bn capital increase for Bull, and whether a similar FF7bn allocation last year to Bull was permissible.

Bull has said it needs this aid to counter the effect of chronic past losses. The latest sharp reduction in Bull's losses will not necessarily weaken French arguments in Brussels for the state aid, which can perhaps now more plausibly be represented as a rational investment rather than money disappearing into a bottomless pit.

Bull reduced its operating loss to FF433m in the first six months of this year, compared with FF1.2bn in the same period a year earlier. Turnover rose 11 per cent to FF13.85bn, with the strongest growth recorded in the personal computer division of Zenith Data System whose sales rose 55 per cent on a year earlier. Bull said stringent cost and salary restraints accounted for the improvement.

Last month, the French government invited tenders for banks to act as advisers on Bull's privatisation. At the same time Mr Descarpentries has tried to reinforce the group's links with NEC of Japan which holds a 4.4 per cent stake in Bull.

Credit Suisse falls 27% to SFr1.8bn

By Ian Rodger in Zurich

Credit Suisse, flagship bank of the CS Holding financial services group, has kicked off the big Swiss banks' interim result season with a disappointing 27 per cent fall in pre-tax profits to SFr1.76bn (\$1.3bn).

A 35 per cent decline in income from trading to SFr494m was accompanied by a 15 per cent drop in net interest income to SFr1.29bn. Of the bank's three main sources of earnings, only commission business showed growth, advancing 10 per cent to SFr1.38bn.

The group gave no figure for net income, but said it was

slightly down on the result in the comparative period due to a less acute need for provisions for bad loans.

Of the big three Swiss banks, Credit Suisse is known as the most dependent on trading of foreign exchange, precious metals, interest rate instruments and securities.

Last year, with all markets rising, this was the group's largest source of income, accounting for 37 per cent of total receipts.

The bank said income from foreign exchange, precious metal and banknote trading in the first half remained only slightly below last year's level, but the slump in international

stock and bond markets hit hard.

The decline in net interest income was attributed to narrower interest rate margins, especially in the Swiss market, and to stagnant lending volumes. Credit Suisse said interest margins were extraordinarily high in the first half of 1993.

The June 30 balance sheet showed a SFr3.6bn decline in lendings to SFr120.3bn since the end of 1993, but the bank said this was due to the weakness of the US dollar.

The contribution from Credit Suisse Financial Products, the bank's 50 per cent-owned derivatives house, "matched last

year's extremely good results". But earnings of Swiss Volksbank, acquired last year by CS Holding and now consolidated with Credit Suisse, "are not yet satisfactory".

● Vontobel, the Zurich-based private banking and asset management group, reporting interim figures for the first time, posted net income of SFr19.8m in the first six months of 1994.

No comparative figures were given. In the full year 1993, the group had net income of SFr40.1m.

The group said it suffered a loss of SFr5.7m on trading of its own securities holdings in the first half.

Escondida mine to expand further

By Nikki Tait in Sydney and
Kenneth Gooding in London

The go-ahead has been given for a further expansion of the Escondida copper mine in Chile at a cost of US\$520m. It will make Escondida the world's biggest copper mine by mid-1996 and also turn Broken Hill Proprietary, which entered the business only five years ago, into the world's leading producer of traded copper.

RTZ of the UK, the world's biggest mining company and one of the partners in Escondida, will move ahead of Phelps Dodge, the biggest US copper producer and not far behind Codelco, the state-owned Chilean group that cur-

rently heads the world copper production league.

The new expansion will lift Escondida's annual production capacity from 480,000 tonnes of copper to an average of 800,000 tonnes.

Construction will start immediately. The increased tonnage will start to build up from the second half of next year and output at the higher level will last to 2000.

Escondida will increase supply of copper concentrate (an intermediate material) to local smelters - among them those owned by Enami, Codelco and Refimet. Following expansion, about 30 per cent of the mine's production will be refined in Chile.

Production started at the \$324m Escondida open pit mine in 1990, and has been expanded twice - costing \$78m and \$200m respectively.

BHP, Australia's biggest company, owns 57.5 per cent; RTZ has 30 per cent; a Japanese consortium led by Mitsubishi, 10 per cent; and International Finance Corporation, 2.5 per cent.

The news left BHP shares 32 cents higher at \$19.02 in Australia yesterday, in a generally firmer market.

RTZ pointed out that Escondida produced about 389,000 tonnes of copper last year and contributed \$36m (\$55.4m) to RTZ's net earnings totalling \$372m.

Strong demand lifts Sapporo Beer

By Emiko Terazono
in Tokyo

Profits at Sapporo Beer, the Japanese brewer, rose sharply for the first six months to June due to a rise in demand and a decline in operational costs.

Non-consolidated pre-tax

profits rose 41.3 per cent from a year earlier to ¥6.9bn (\$66.4m) on a 4.3 per cent rise in sales to ¥267.4bn. After-tax profits rose 8.9 per cent to ¥3.2bn. Sales of the company's mainstay beer rose 3 per cent to ¥238.1bn, with sales volume increasing 1 per cent. Operat-

ing profits rose 51 per cent to ¥11.2bn due to a ¥5bn cut in material, distribution, and advertising costs.

The company expects full-year pre-tax profits to rise 4 per cent to ¥11.5bn on a 9 per cent increase in sales to ¥262bn.

WMX plans to buy back unit's shares

By Laurie Morse in Chicago

WMX Technologies, the international waste hauler based in Chicago, plans to buy back all of the publicly-held shares of Chemical Waste Management, its hazardous waste handling subsidiary, through an exchange of stock, essentially merging the two companies.

The company said it was planning a review of its operations, hinting that it may undergo a second restructuring in as many years.

WMX Technologies, formerly known as Waste Management, intends to issue 12.1m shares, valued at nearly \$353m, to regain full ownership of Chemical Waste Management in a tax-free transaction.

Chemical Waste Management shares were up 5% at \$8% at mid-session in New York yesterday, while WMX Technologies were unchanged at \$29%.

WMX already owns 78.6 per cent of Chemical Waste's outstanding shares and intends to exchange 0.27 of its own shares for each one share of Chemical Waste's common stock it does not own. Chemical Waste's public shareholders need to approve the transaction.

Austrian bank hit by trading income drop

By Ian Rodger

Creditanstalt-Bankverein (CA), the Austrian bank in the midst of privatisation negotiations, has reported a 17 per cent decline in pre-tax profit in the first half to Sch1.9bn (\$165m) due to a steep fall in trading income.

Meanwhile, the Austrian finance ministry has decided to commission an investment bank to evaluate bids by CS Holding of Switzerland and a consortium of Austrian, Italian and German investors for a large portion of the government's 70 per cent voting stake in CA.

A decision is expected after the Austrian general elections on October 9.

CA, Austria's second largest bank, said it expected an improvement in second-half trading and net interest income, but forecast pre-tax profit for the full year would be lower than last year's record Sch5.4bn. However, it was confident that net income would be higher as a result of lower provisions for bad loans.

CA saw income from own account trading slide 45 per cent to Sch355m in the first six months of 1994. The bank's so-called partial operating

Guido Schmidt-Chiari:
chief executive

profit, which excludes trading, was up 11.7 per cent to Sch1.35bn.

Mr Guido Schmidt-Chiari, chief executive, said provisions in the first half were less than Sch1.5bn compared with Sch3.8bn in the whole of last year. Total assets at the end of June at Sch573.4bn were only 2 per cent higher than at the end of 1993.

Precise consolidated results were not available, but CA said its group pre-tax profit was down 13 per cent to just over Sch2.6bn.

Hazardous waste charge dents Aetna

By Richard Waters

Expected liabilities from the clean-up of hazardous waste sites pushed net income at Aetna, the US insurance group, down 8 per cent in its latest quarter, compared with a year before.

Concern that the company may harbour other pollution-related liabilities pushed Aetna's share price down 3%, or nearly 7 per cent, to \$51, during morning trading in New York. Uncertainty about the scale of environmental clean-up costs remains the biggest concern overhauling the US property-casualty insurance industry.

The Connecticut-based company said in the three months to the end of June it had set aside additional reserves to cover environmental indemnity claims, resulting in an after-tax charge of \$64m.

The unexpected charge led to a \$32m operating loss in Aetna's commercial property/casualty business during the second quarter, compared with a profit of \$25m a year before.

The losses were offset in part by advances in life and health insurance businesses, as well as financial services.

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FINANCIAL TIMES
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CURRENCIES AND MONEY

MARKETS REPORT

Futures plunge

Fears of an imminent rise in UK base rates caused panic selling of short sterling futures yesterday, writes Philip Gault.

Massive volumes were traded and price movements were also exceptionally large. The December contract traded nearly 110,000 lots and there was a 48 basis point spread between the high and the low prices for the day.

The December contract settled at 93.27, suggesting the market believes interest rates will rise by 1.5 percentage points by the end of the year.

These developments overshadowed the release of the US 2nd quarter GDP figure, which rose by 3.7 per cent. This was below market expectations and this took some of the sheen off the dollar which had risen above 100 on Thursday evening for the first time in a month.

The dollar finished in London at 100.175, down from a

high for the day of 100.57. Against the D-Mark it finished at DM1.5885, off a high of DM1.5885 before the GDP release.

The prospect of higher interest rates bolstered sterling which rose more than two pence on the day to finish in London at DM2.4413 from DM2.4195. It was also 1/2 cent firmer against the dollar, closing at \$1.5366 from \$1.5319.

The market's problems arose from confusing interest rate signals emanating from the Bank of England. In its weekly Treasury bill operations, the Bank accepted a highest bid of 5.75 per cent - 1/2 per cent above the current base rate, and around 1/4 of a

percentage point up on the week.

This led the market to believe that the Bank of England was signalling an imminent tightening of policy. In its daily operations, however, the Bank provided evidence at the established rate of 5 1/2 per cent. This left the market totally confused as to what the Bank was trying to tell it.

The net effect of yesterday's transactions is that the Bank has borrowed money at 5.75 per cent and lent it at 5 1/2 per cent. This is an untenable situation beyond the very short term, and either market rates will have to drop back towards the Bank rate, or it will have to be raised.

Analysts were split as to whether the Bank was trying to signal higher rates, or had made a mess of the Treasury bill tender by not realising the confusion it would create by accepting a 5.75 per cent rate.

Although interbank rates had climbed sharply during the days following the CBI survey, and a buoyant purchasing managers index yesterday, the Bank's hands were not tied. It could either have pulled the auction, as it has done in the past, or intervened on its own account to knock out the highest bids.

Traders in the futures market said the market went "absolutely ballistic". Trading conditions were "right up there with the ERM chaos" said one dealer.

Staring rose on hopes of higher rates, but analysts warned that it was vulnerable to a heavy sell-off next week should the Bank disappoint the

market by not tightening policy.

Not only would rates be lower than expected, but the Bank's credibility would be damaged. Similar confusion in February about the handling of a base rate rise led to heavy selling of sterling.

Other currencies

Other currencies

Other currencies

Other currencies

Other currencies

Other currencies

POUND SPOT FORWARD AGAINST THE POUND

Jul 29	Closing mid-point	Change on day	High	Low	One month	Three months	One year	Bank of England
Europe	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Australia	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Canada	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
France	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Germany	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Italy	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Japan	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Netherlands	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Portugal	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Spain	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Sweden	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Switzerland	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
UK	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
USA	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 29	Closing mid-point	Change on day	High	Low	One month	Three months	One year	J.P. Morgan
Europe	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Australia	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Canada	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
France	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Germany	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Italy	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Japan	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Netherlands	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Portugal	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Spain	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Sweden	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
Switzerland	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
UK	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175
USA	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jul 29	BFY	DM	FF	DM	FF	DM	FF	DM	FF
Belgium	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
France	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Germany	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Italy	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Japan	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Netherlands	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Portugal	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Spain	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Sweden	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
Switzerland	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
UK	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175
USA	100.175	+0.0004	100.175	100.175	100.175	100.175	100.175	100.175	100.175

B-MARK FUTURE (DM) 125,000 per DM

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

SWISS FRANC FUTURE (MM) SF 125,000 per SF

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

WORLD INTEREST RATES

MONEY RATES

Country	Rate	Country	Rate	Country	Rate
Belgium	100.175	France	100.175	Germany	100.175
Italy	100.175	Japan	100.175	Netherlands	100.175
Portugal	100.175	Spain	100.175	Sweden	100.175
Switzerland	100.175	UK	100.175	USA	100.175

EURO CURRENCY INTEREST RATES

EURO CURRENCY INTEREST RATES

Country	Rate	Country	Rate	Country	Rate
Belgium	100.175	France	100.175	Germany	100.175
Italy	100.175	Japan	100.175	Netherlands	100.175
Portugal	100.175	Spain	100.175	Sweden	100.175
Switzerland	100.175	UK	100.175	USA	100.175

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Open	Low	High	Settle	Open Int.
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78
78.78	78.78	78.78	78.78	78.78

THREE MONTH EURO DOLLAR (MM) \$1m points of 100%

Mar	93.85	94.07	+0.17
■ US TREASURY BILL FUTURES (MM) \$			
Sep	95.21	95.35	+0.14

AUTHORISED UNIT TRUSTS

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Specific Unit The Energy Ltd (11000)
 Investment No. 25 Western, (Can Ltd)
 Department 071-291-2070

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	2036-37	2037-38	2038-39	2039-40	2040-41	2041-42	2042-43	2043-44	2044-45	2045-46	2046-47	2047-48	2048-49	2049-50	2050-51	2051-52	2052-53	2053-54	2054-55	2055-56	2056-57	2057-58	2058-59	2059-60	2060-61	2061-62	2062-63	2063-64	2064-65	2065-66	2066-67	2067-68	2068-69	2069-70	2070-71	2071-72	2072-73	2073-74	2074-75	2075-76	2076-77	2077-78	2078-79	2079-80	2080-81	2081-82	2082-83	2083-84	2084-85	2085-86	2086-87	2087-88	2088-89	2089-90	2090-91	2091-92	2092-93	2093-94	2094-95	2095-96	2096-97	2097-98	2098-99	2099-00	2100-01	2101-02	2102-03	2103-04	2104-05	2105-06	2106-07	2107-08	2108-09	2109-10	2110-11	2111-12	2112-13	2113-14	2114-15	2115-16	2116-17	2117-18	2118-19	2119-20	2120-21	2121-22	2122-23	2123-24	2124-25	2125-26	2126-27	2127-28	2128-29	2129-30	2130-31	2131-32	2132-33	2133-34	2134-35	2135-36	2136-37	2137-38	2138-39	2139-40	2140-41	2141-42	2142-43	2143-44	2144-45	2145-46	2146-47	2147-48	2148-49	2149-50	2150-51	2151-52	2152-53	2153-54	2154-55	2155-56	2156-57	2157-58	2158-59	2159-60	2160-61	2161-62	2162-63	2163-64	2164-65	2165-66	2166-67	2167-68	2168-69	2169-70	2170-71	2171-72	2172-73	2173-74	2174-75	2175-76	2176-77	2177-78	2178-79	2179-80	2180-81	2181-82	2182-83	2183-84	2184-85	2185-86	2186-87	2187-88	2188-89	2189-90	2190-91	2191-92	2192-93	2193-94	2194-95	2195-96	2196-97	2197-98	2198-99	2199-00	2200-01	2201-02	2202-03	2203-04	2204-05	2205-06	2206-07	2207-08	2208-09	2209-10	2210-11	2211-12	2212-13	2213-14	2214-15	2215-16	2216-17	2217-18	2218-19	2219-20	2220-21	2221-22	2222-23	2223-24	2224-25	2225-26	2226-27	2227-28	2228-29	2229-30	2230-31	2231-32	2232-33	2233-34	2234-35	2235-36	2236-37	2237-38	2238-39	2239-40	2240-41	2241-42	2242-43	2243-44	2244-45	2245-46	2246-47	2247-48	2248-49	2249-50	2250-51	2251-52	2252-53	2253-54	2254-55	2255-56	2256-57	2257-58	2258-59	2259-60	2260-61	2261-62	2262-63	2263-64	2264-65	2265-66	2266-67	2267-68	2268-69	2269-70	2270-71	2271-72	2272-73	2273-74	2274-75	2275-76	2276-77	2277-78	2278-79	2279-80	2280-81</
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[illegible][illegible][illegible]

Schneider Unit Trusts Ltd (4000)		J.M. Paine Managers Limited (3000)	
2000	25.00	25.00	25.00
2001	25.00	25.00	25.00
2002	25.00	25.00	25.00
2003	25.00	25.00	25.00
2004	25.00	25.00	25.00
2005	25.00	25.00	25.00
2006	25.00	25.00	25.00
2007	25.00	25.00	25.00
2008	25.00	25.00	25.00
2009	25.00	25.00	25.00
2010	25.00	25.00	25.00
2011	25.00	25.00	25.00
2012	25.00	25.00	25.00
2013	25.00	25.00	25.00
2014	25.00	25.00	25.00
2015	25.00	25.00	25.00
2016	25.00	25.00	25.00
2017	25.00	25.00	25.00
2018	25.00	25.00	25.00
2019	25.00	25.00	25.00
2020	25.00	25.00	25.00
2021	25.00	25.00	25.00
2022	25.00	25.00	25.00
2023	25.00	25.00	25.00
2024	25.00	25.00	25.00
2025	25.00	25.00	25.00
2026	25.00	25.00	25.00
2027	25.00	25.00	25.00
2028	25.00	25.00	25.00
2029	25.00	25.00	25.00
2030	25.00	25.00	25.00
2031	25.00	25.00	25.00
2032	25.00	25.00	25.00
2033	25.00	25.00	25.00
2034	25.00	25.00	25.00
2035	25.00	25.00	25.00
2036	25.00	25.00	25.00
2037	25.00	25.00	25.00
2038	25.00	25.00	25.00
2039	25.00	25.00	25.00
2040	25.00	25.00	25.00
2041	25.00	25.00	25.00
2042	25.00	25.00	25.00
2043	25.00	25.00	25.00
2044	25.00	25.00	25.00
2045	25.00	25.00	25.00
2046	25.00	25.00	25.00
2047	25.00	25.00	25.00
2048	25.00	25.00	25.00
2049	25.00	25.00	25.00
2050	25.00	25.00	25.00
2051	25.00	25.00	25.00
2052	25.00	25.00	25.00
2053	25.00	25.00	25.00
2054	25.00	25.00	25.00
2055	25.00	25.00	25.00
2056	25.00	25.00	25.00
2057	25.00	25.00	25.00
2058	25.00	25.00	25.00
2059	25.00	25.00	25.00
2060	25.00	25.00	25.00
2061	25.00	25.00	25.00
2062	25.00	25.00	25.00
2063	25.00	25.00	25.00
2064	25.00	25.00	25.00
2065	25.00	25.00	25.00
2066	25.00	25.00	25.00
2067	25.00	25.00	25.00
2068	25.00	25.00	25.00
2069	25.00	25.00	25.00
2070	25.00	25.00	25.00
2071	25.00	25.00	25.00
2072	25.00	25.00	25.00
2073	25.00	25.00	25.00
2074	25.00	25.00	25.00
2075	25.00	25.00	25.00
2076	25.00	25.00	25.00
2077	25.00	25.00	25.00
2078	25.00	25.00	25.00
2079	25.00	25.00	25.00
2080	25.00	25.00</	

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

INSURANCES

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

[illegible]

• / = High Low Yes

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1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421
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LONDON SHARE SERVICE

BANKS

Company	Price	Change
ABN AMRO	152.00	0.00
Barclays Bank	120.00	0.00
Bank of Scotland	110.00	0.00
Bank of Ireland	100.00	0.00
Bank of London	90.00	0.00
Bank of Montreal	80.00	0.00
Bank of New York	70.00	0.00
Bank of Paris	60.00	0.00
Bank of Spain	50.00	0.00
Bank of Tokyo	40.00	0.00
Bank of West	30.00	0.00
Bank of America	20.00	0.00
Bank of China	10.00	0.00
Bank of India	5.00	0.00
Bank of Japan	2.00	0.00
Bank of Korea	1.00	0.00
Bank of Russia	0.50	0.00
Bank of South Africa	0.25	0.00
Bank of Sweden	0.125	0.00
Bank of Switzerland	0.0625	0.00
Bank of Taiwan	0.03125	0.00
Bank of Thailand	0.015625	0.00
Bank of Vietnam	0.0078125	0.00
Bank of Yugoslavia	0.00390625	0.00
Bank of Zimbabwe	0.001953125	0.00

CHEMICALS

Company	Price	Change
Alkermes	150.00	0.00
Amgen	140.00	0.00
Baxter	130.00	0.00
Boehringer	120.00	0.00
Chemtec	110.00	0.00
Chemtec	100.00	0.00
Chemtec	90.00	0.00
Chemtec	80.00	0.00
Chemtec	70.00	0.00
Chemtec	60.00	0.00
Chemtec	50.00	0.00
Chemtec	40.00	0.00
Chemtec	30.00	0.00
Chemtec	20.00	0.00
Chemtec	10.00	0.00
Chemtec	5.00	0.00
Chemtec	2.00	0.00
Chemtec	1.00	0.00
Chemtec	0.50	0.00
Chemtec	0.25	0.00
Chemtec	0.125	0.00
Chemtec	0.0625	0.00
Chemtec	0.03125	0.00
Chemtec	0.015625	0.00
Chemtec	0.0078125	0.00
Chemtec	0.00390625	0.00
Chemtec	0.001953125	0.00

ELECTRONIC & ELECTRICAL EQPT - Cont.

Company	Price	Change
ABB	150.00	0.00
ABB	140.00	0.00
ABB	130.00	0.00
ABB	120.00	0.00
ABB	110.00	0.00
ABB	100.00	0.00
ABB	90.00	0.00
ABB	80.00	0.00
ABB	70.00	0.00
ABB	60.00	0.00
ABB	50.00	0.00
ABB	40.00	0.00
ABB	30.00	0.00
ABB	20.00	0.00
ABB	10.00	0.00
ABB	5.00	0.00
ABB	2.00	0.00
ABB	1.00	0.00
ABB	0.50	0.00
ABB	0.25	0.00
ABB	0.125	0.00
ABB	0.0625	0.00
ABB	0.03125	0.00
ABB	0.015625	0.00
ABB	0.0078125	0.00
ABB	0.00390625	0.00
ABB	0.001953125	0.00

EXTRACTIVE INDUSTRIES

Company	Price	Change
Anglo American	150.00	0.00
Anglo American	140.00	0.00
Anglo American	130.00	0.00
Anglo American	120.00	0.00
Anglo American	110.00	0.00
Anglo American	100.00	0.00
Anglo American	90.00	0.00
Anglo American	80.00	0.00
Anglo American	70.00	0.00
Anglo American	60.00	0.00
Anglo American	50.00	0.00
Anglo American	40.00	0.00
Anglo American	30.00	0.00
Anglo American	20.00	0.00
Anglo American	10.00	0.00
Anglo American	5.00	0.00
Anglo American	2.00	0.00
Anglo American	1.00	0.00
Anglo American	0.50	0.00
Anglo American	0.25	0.00
Anglo American	0.125	0.00
Anglo American	0.0625	0.00
Anglo American	0.03125	0.00
Anglo American	0.015625	0.00
Anglo American	0.0078125	0.00
Anglo American	0.00390625	0.00
Anglo American	0.001953125	0.00

HEALTH CARE - Cont.

Company	Price	Change
Glaxo	150.00	0.00
Glaxo	140.00	0.00
Glaxo	130.00	0.00
Glaxo	120.00	0.00
Glaxo	110.00	0.00
Glaxo	100.00	0.00
Glaxo	90.00	0.00
Glaxo	80.00	0.00
Glaxo	70.00	0.00
Glaxo	60.00	0.00
Glaxo	50.00	0.00
Glaxo	40.00	0.00
Glaxo	30.00	0.00
Glaxo	20.00	0.00
Glaxo	10.00	0.00
Glaxo	5.00	0.00
Glaxo	2.00	0.00
Glaxo	1.00	0.00
Glaxo	0.50	0.00
Glaxo	0.25	0.00
Glaxo	0.125	0.00
Glaxo	0.0625	0.00
Glaxo	0.03125	0.00
Glaxo	0.015625	0.00
Glaxo	0.0078125	0.00
Glaxo	0.00390625	0.00
Glaxo	0.001953125	0.00

INVESTMENT TRUSTS - Cont.

Company	Price	Change
Investment Trust	150.00	0.00
Investment Trust	140.00	0.00
Investment Trust	130.00	0.00
Investment Trust	120.00	0.00
Investment Trust	110.00	0.00
Investment Trust	100.00	0.00
Investment Trust	90.00	0.00
Investment Trust	80.00	0.00
Investment Trust	70.00	0.00
Investment Trust	60.00	0.00
Investment Trust	50.00	0.00
Investment Trust	40.00	0.00
Investment Trust	30.00	0.00
Investment Trust	20.00	0.00
Investment Trust	10.00	0.00
Investment Trust	5.00	0.00
Investment Trust	2.00	0.00
Investment Trust	1.00	0.00
Investment Trust	0.50	0.00
Investment Trust	0.25	0.00
Investment Trust	0.125	0.00
Investment Trust	0.0625	0.00
Investment Trust	0.03125	0.00
Investment Trust	0.015625	0.00
Investment Trust	0.0078125	0.00
Investment Trust	0.00390625	0.00
Investment Trust	0.001953125	0.00

BREWERS

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

DISTRIBUTORS

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

BUILDING & CONSTRUCTION

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

DIVERSIFIED INDUSTRIALS

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

BUILDING MATS. & MERCHANTS

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

ELECTRICITY

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0.00
Adnams	100.00	0.00
Adnams	90.00	0.00
Adnams	80.00	0.00
Adnams	70.00	0.00
Adnams	60.00	0.00
Adnams	50.00	0.00
Adnams	40.00	0.00
Adnams	30.00	0.00
Adnams	20.00	0.00
Adnams	10.00	0.00
Adnams	5.00	0.00
Adnams	2.00	0.00
Adnams	1.00	0.00
Adnams	0.50	0.00
Adnams	0.25	0.00
Adnams	0.125	0.00
Adnams	0.0625	0.00
Adnams	0.03125	0.00
Adnams	0.015625	0.00
Adnams	0.0078125	0.00
Adnams	0.00390625	0.00
Adnams	0.001953125	0.00

ELECTRONIC & ELECTRICAL EQPT

Company	Price	Change
Adnams	150.00	0.00
Adnams	140.00	0.00
Adnams	130.00	0.00
Adnams	120.00	0.00
Adnams	110.00	0

TRANSPORT - Cont.

FT Free Annual Reports Service
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Weekend FT

SECTION II

Weekend July 30/July 31 1994

Conservative Party popularity



Lord Salisbury
Tory leader, 1881-1902



Arthur Balfour
1902-1911



Stanley Baldwin
1923-1937



Winston Churchill
1940-1955



Harold Macmillan
1957-1963

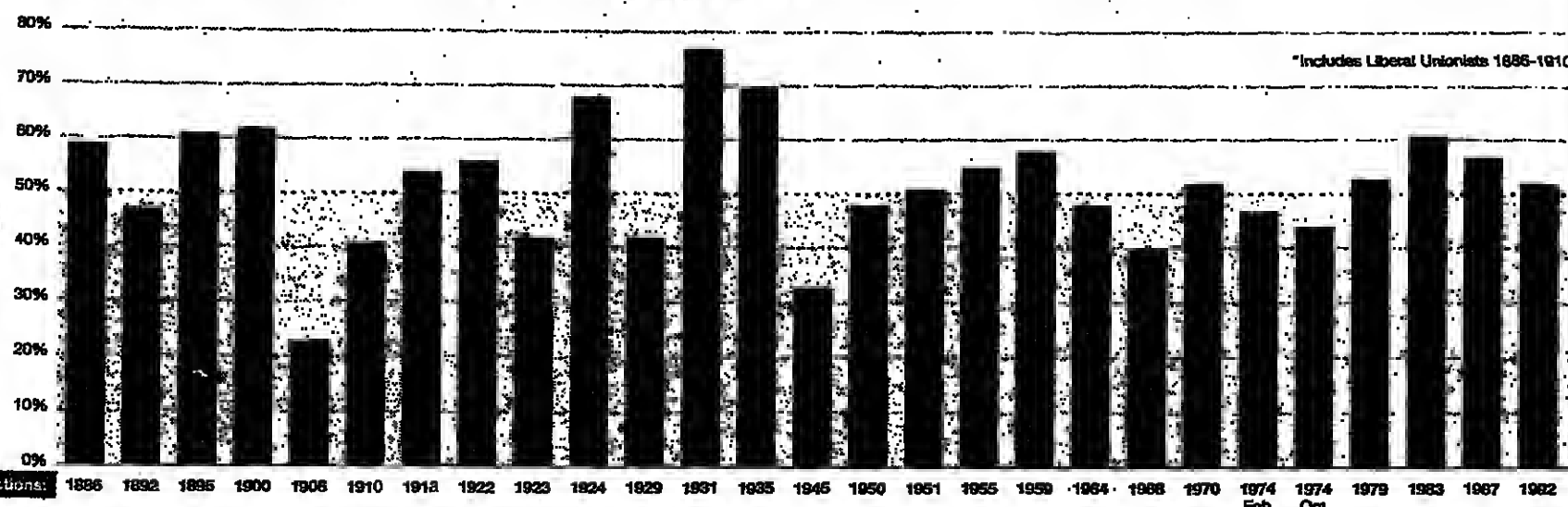


Edward Heath
1965-1975



Margaret Thatcher
1975-1990

Percentage of seats in House of Commons won at general elections*



John Major 1990-

England: the west's one-party state

Over the last century the Tories have ruled Britain longer than the Communists ruled Russia. Andrew Adonis explains how they did it

It will be interesting to be the last of the Conservatives. I foresee that will be my fate.

Such was the private prediction of Britain's longest-serving, and arguably most successful, Conservative leader of the past century. It was not Margaret Thatcher but the Marquess of Salisbury, prime minister for 13 years at the zenith of Victorian Britain's imperial power between 1885 and 1902.

No modern Tory leader, least of all Baroness Thatcher, would express such forebodings, even in private. Not in their gloomiest moods contemplating opposition to a Blair Labour government do Tories fear for the annihilation of their party. The "Canadian scenario" - the ruling Conservatives were reduced to just two seats in last year's Canadian general election - is nothing but a party game in Britain (name the two Tory MPs you would like to see survive).

The reason for this goes to the heart of contemporary English cul-

ture and politics. Since Lord Salisbury's day the Tories have, above all, been the voice of the English middle class. As that class has grown, and its values and aspirations permeated English society at large, the strength and inner self-confidence of the Tories has increased.

Not that the Tories were previously weak. The Conservative party is the oldest and most successful political party in any western democracy. It has governed Britain for 76 of the 110 years since the creation of the mass electorate in 1884 - longer than the Communists ruled Russia, but with the inconvenience of 29 free elections in between.

Why, then, do the Tories appear so adrift? John Major's failings and survival prospects have preoccupied the Westminster world since the day he succeeded Thatcher - a grey man leading a grey cabinet, dominated by uninspiring political managers whose driving ambition is to stay in office.

Some believe that the Tory malaise goes far deeper. In a recent

pamphlet, John Gray, the political philosopher, argues that British Conservatism has committed suicide on the altar of free market economics. "Traditional conservatism no longer exists in Britain," he claims. "It is dead - killed off by the radical market liberalism which the Tories adopted in the late 1970s, and which has governed the policies of successive Conservative governments since that time."

The idea is appealing. Insofar as "Majorism" represents a programme, it is the drug of Thatcherism - taking privatisation to lengths Thatcher dared not go (the railways and the Post Office), and advancing remorselessly with public sector reforms - notably in health and education - launched in the mid-1980s.

However, Gray is on shaky ground in arguing that modern Toryism is "thoroughly unengaged to the tolerant and sceptical temper of the British electorate," and that the Conservatives are bound to reap the electoral whirlwind. The likelihood of a Tory defeat is the wisdom of the political establishment,

whose horizons rarely extend beyond the latest opinion poll, by-election or leadership change. But an historical perspective puts the Tories' present predicament in a different frame.

In the first place, there is no such thing as the "British electorate". For much of the last century Scotland, Wales and (Northern) Ireland

'Most of the English electorate are villa Tories in lifestyle and aspirations'

have refused to conform to the English pattern. Scotland and Wales have been markedly less Tory than England. Until the inter-war years their professional classes, never fully Anglicised and more collectivist-minded, looked mainly to the Liberals for political careers. Since, the same impulses have led them to Labour.

The Tories are the English

National Party. "My politics are described by one word, and that word is ENGLAND," Disraeli told his electors in 1832. Norman Tebbit's Euro-sceptics could not put it better today. "That word" has been nothing but a boon to the Tories. Although it rarely speaks its name, English nationalism is as potent a political force as its more naked counterparts on mainland Europe, and England accounts for four-fifths of the seats in the House of Commons.

Fighting the separatist tendencies of the other parties has always been a prime source of Tory ideology and morale, from Gladstone's Irish Home Rule plans of the 1880s to successive schemes for Scottish and Welsh devolution supported by Liberals, Labour and Nationalists in recent decades.

For the Conservatives it was only a short step to fighting the Brussels bureaucrats - or, at any rate, refusing to give in to them as much as the other parties. It is potentially just as popular a cause in England.

Nationalism inevitably creates problems of government. Salisbury

had to govern Parnell's Ireland without too much repression. John Major cannot afford total isolation in Brussels - and when Baroness Thatcher achieved that, she had to go. Yet Tories have ever been masters at tempering visceral campaign rhetoric with compromise in office.

Moreover, Tory England is expanding. The last 30 years have seen a sharp contraction in the manual working class, a population shift to the home counties, and an inexorable rise in home ownership.

The "salariat" comprised 18 per cent of the UK electorate in 1984; it now extends to about a third (more in England), with the proportion of home owners up from about one-third to two-thirds (ditto). Over the same period the "petty bourgeoisie" of small shopkeepers and other self-employed tradespeople, consistently the most pro-Tory of social groups, has remained a solid 10 per cent of the electorate.

England now has more actors than miners, and each parliamentary boundary review sees a redistribution of seats from the cities to

the suburbs.

The Tories have long been the party of home-owning suburban. Lord Salisbury called it "villa Toryism," and favoured single-member parliamentary seats as the best means of isolating it from less reliable - but often still pro-Tory - urban working-class districts. Most of today's English electorate are villa Tories in lifestyle and aspirations.

Villa Tories do not invariably vote Tory. In mid-term local and European elections they have always been liable to defect en masse - particularly, in southern England, to the various incarnations of the Liberal party. Since the mid-1970s the Liberal Democrats, as they have become, have garnered a sizeable vote, appealing particularly to non-metropolitan manual workers and public-sector professionals anxious for more public spending. Tony Blair's Labour party will mine the same seam.

It is important, however, to understand the strength of the Tory

Continued on Page XVIII

CONTENTS

Finance & Family: How to pay for that M-reg car	III
Travel: Nicholas Woodworth visits an Arctic Côte d'Azur	X
Perspectives: Nigel Spivey converts to Zionism	XIII
Books: Alan Clark finds inspiration for old-fashioned Tories	XIV
Art: Sixteen views of Monet's cathedral of dreams	XVI
Private Views: Martin Gilbert on the myth of Churchill's dirty laundry	XVIII



Indomitable in battle, defeated in peace - the fall of a Highland regiment

Arts	XV-XVI
Books	XV
Bridge, Chess, Crossword	XV
Fashion	VII
Finance & the Family	IX
Food & Drink	X
Gardening	XII
How To Spend It	XIII
Dorothy Lawson	XVIII
Markets	II
Motoring	XIX
Perspectives	IX, XIII
Private View	XVIII
Property	XII
Sport	XIII
Travel	X-XI
TV & Radio	XVI

Long View/Barry Riley

Rates on the turn



Barry Riley

It is now almost six months since UK short-term interest rates were controversially cut, amid disagreement between the Treasury and the Bank of England and in the immediate wake of the initial tightening of dollar rates by the US Federal Reserve. A good deal of economic recovery and growth has flowed under the bridge since, making an early rise in UK rates look much more likely, although there was only confusion in the money markets yesterday afternoon as the Bank apparently tried to distance itself from a sudden rise in Treasury bill rates.

Any official rise confirmed at the beginning of next week - maybe of half a percentage point - would be the first after 15 consecutive cuts since the peak of the last interest rate cycle was reached at 15 per cent in 1989. No acceleration of inflation is yet visible; the latest underlying rate is no more than 2.4 per cent, and the upward pressures, when they arrive, are likely to prove modest. However, inflation can only be beaten from the front, not in arrears.

The British economy is now growing quite fast - by 3.3 per cent in the second quarter, which on past form for this stage of the economic cycle is likely to be an underestimate by the official statisticians. In such a context this week's quarterly industrial trends survey from the CBI for July upset the markets by highlighting the ingrained inflationary bias in Britain's industrial economy. Capacity utilisation is already at historically high levels; investment intentions are quite subdued.

Britain's manufacturing industry is today dominated by dogged survivors. Most of the expansionists and optimists went out of business years ago. The rest have cut capacity and slashed costs and have waited impatiently in their trenches for a revival in demand. They now plan to raise their prices and boost their profits - at least, that is the intention of a significant balance of companies surveyed by the CBI. The same

message comes from a separate survey, showing a sharp rise in the purchasing managers' price index for July. There is little obvious sign of companies that intend to increase output and cut prices - outside Wapping, anyway.

If this price-based commercial strategy works it will prove inflationary. A price-led recovery would surely drag up pay, currently growing at a fairly modest 3 per cent. Profits are already reaching a 30-year high as a proportion of national income. More likely, the strategy will not work but will lead straight to a more potent problem - a balance of payments crisis. This is because in an open economy foreign-made imports which are not having their prices raised will increase their market share - and anyway, domestic supply will prove inadequate.

A strong cyclical surge in profits is built into the expectations of the stock market. The renewed weakness of the gilt-edged market this week, when the Bank of England's 300th birthday celebrations on Wednesday were slightly dampened by the disappointing response to that day's gilt auction, has undermined the valuation of equities.

For instance, the yield ratio between long-dated gilts and equities has widened to nearly 2.3, which is looking stretched. Moreover the real yield gap between equities and index-linked gilts, which normally wobbles around a positive 0.5 per cent, is slightly negative. The last time this happened was in 1987, when the reverse gap reached a full percentage point shortly before the stock market crashed in October that year.

In early 1987 expectations of growth in profits and dividends were very high - justifiably. Dividends grew by 15 per cent that year. Even so, the bubble of overvaluation soon burst. This time analysts appear to be expecting profits growth of at least 15 per cent both this year and next, with year-on-year dividend growth rising from its current 7 per cent to maybe 9 per cent - a healthy advance in real terms, assuming inflation stays low. So looking two

years ahead the All-Share Index could be yielding a prospective 4.5 per cent, in which case the challenge of index-linked gilts returning 3.9 per cent real, as they now do, would look quite weak.

But the tension between the inflationary enthusiasm of the securities markets and the anti-inflationary zeal of the authorities is becoming charged. Implied inflation in the gilt market is now more than 4 per cent. This week the Bank of England offered straight 16-year fixed-coupon paper, which was what the market was supposedly waiting for. But the issue barely got away and bidders were immediately showing a 1.5 per cent loss.

One problem may be a shortage of domestic buying power, at a time when the foreigners are sitting on their hands. Life assurance companies, the biggest domestic buyers of gilts, have seen their new business fall away - by 20 per cent in the first half for the Prudential, by 17 per cent for Legal & General. Pension funds have very little cash flow, and can only buy gilts by selling equities.

But the more fundamental point is that this is a bad time in the cycle for bonds. When equity dividend expectations are so high a yield of even 8 1/2 per cent-plus on gilts seems tame. The market seems quickly to have forgotten the scare over Stephen Dorrell and his hints at extra taxes on dividends; Dorrell has anyway been reshuffled to a safe distance from the Treasury.

At some point, perhaps imminently, the Bank of England may have to seize the initiative and put short-term rates up. It has to cool down economic growth to a pace - under 3 per cent - which the capacity-constrained UK economy can handle. It will have to try to convince industry - though this will take years - that rapid, sustainable growth can only come through raising productivity and building more factories, not by jacking up margins.

The UK equity market, however, has jumped on a time loop back to the 1980s, and is thoroughly enjoying the ride. But that time machine could generate higher interest rates too.

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MARKETS

London

Fretting over whether the price is right

Andrew Bolger

How can the shares of a small grocery chain such as William Low nearly double in value within a fortnight? Easy: when Britain's biggest food retailer, J. Sainsbury, decides to change the habits of a lifetime and enter a bidding battle to prevent Tesco, its main rival, from snapping up the struggling Scottish company.

Analysts fluently reel off reasons why the majors are keen to get their hands on Wm Low: it offers a shortcut to a strong market position and distribution network in Scotland, where it is increasingly difficult to obtain planning permission for more stores.

Yet a fortnight ago these strategic assets were scarcely reflected in the Dundee group's share price, which had languished as the market focused on its shrinking sales and profit margins. The episode is a useful reminder that markets must try to combine judgments of both underlying value and

short-term trading performance and outlook – and how inaccurate the results can be.

The disparity between the current buoyancy of corporate results and increasing concern over some fundamental aspects of the UK economy explains the twitchy mood of the City, even although the FT-SE 100 index has now bounced by 206 points from its June low point of 2877.

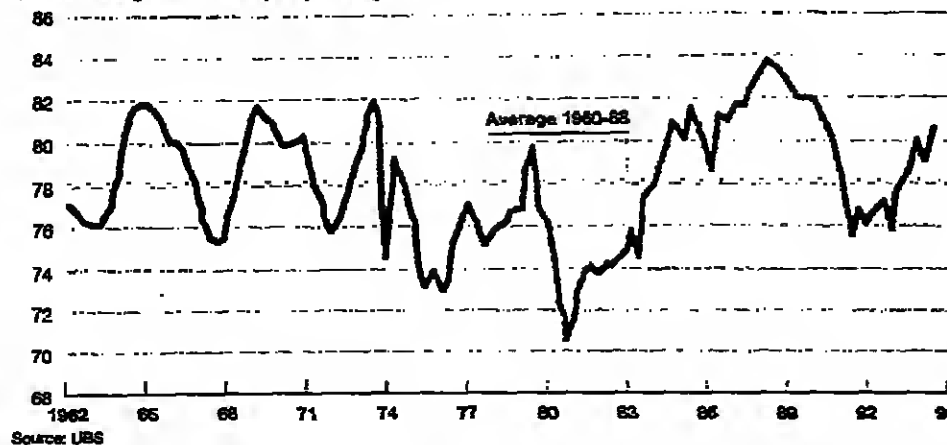
This week Imperial Chemical Industries increased its pre-tax profits by 40 per cent and the UK's largest chemicals company hailed "the first tangible signs of a widespread recovery in our worldwide markets."

Lloyds Bank got the clearing banks' reporting season off to a solid start by confirming a sharp drop in bad debt provisions, but subdued demand for loans suggests customers will not forget the harsh lesson of recession in a hurry.

Even beleaguered BAT Industries, the tobacco and financial services group, was able to increase profits in spite of the growing backlash

Plant capacity utilisation

Current working as % of full capacity working



Source: USB

against smoking in the US.

An important cloud overhanging the equity market was dispelled on Thursday, when the new price regime for the privatised water companies was revealed. Although the controls – known as K-factors – limit future price increases to 1 percentage point a year above inflation, analysts quickly concluded that most of the 10 privatised water and sewerage companies would be able to maintain dividend increases of 3 or 4 percentage points above inflation.

However, the City's underlying nervousness had been demonstrated the previous day, when the FT-SE 100 shed 34.9 points to drop back towards the 3,100 mark. The Confederation of British Industry's quarterly industrial trends survey showed that improving exports were contributing to the fast rise in order books for

almost six years. But analysts were more concerned by indications that UK interest rates might have to be tightened sooner rather than later.

Inflationary pressures in the manufacturing sector picked up over the quarter, and relatively weak investment intentions fuelled fears that bottlenecks are developing. As the chart shows, capacity utilisation rates showed a further increase in July – and are already running well above their long-run average.

The percentage balance of firms expecting to increase their expenditure on plant and machinery over the next 12 months was plus 6 per cent in July, compared with plus 4 per cent in April, so the capacity shortfall will not be quickly made good.

The broker USB warns: "This suggests that manufacturing industry has a woefully inadequate capital base, which could act as a severe constraint on future output growth. If demand growth remains strong, it is likely to fuel rising inflationary pressures and a burgeoning current account deficit."

The CBI survey showed that most British companies have not adjusted their investment criteria for low inflation and interest rates, in spite of warnings from the government that this is stifling investment. Many companies still demand that investment projects should either yield a rate of return above 20 per cent, or pay back the investment within three years.

Companies also assume the government will not deliver its inflation promise. Their average prediction for inflation when considering investment

projects is 5 per cent, compared with the government's target of bringing it below 2.5 per cent by the end of the parliament.

Eddie George, governor of the Bank of England, has cited the expectation of higher inflation as one factor that would call for tighter monetary policy.

The market again took fright yesterday afternoon, when the Bank sold short-term Treasury bills at rates of up to 5.75 per cent – half a percentage point above the level of base rates. Some traders took this as a signal that UK interest rates were about to rise and the FT-SE 100 at one point had shed 62.5 points. It recovered to close just 13.3 points down on the day, as analysts concluded that the Bank had probably not been trying to send any such signal.

However, it seems clear that concern over the timing and impact of the next rise in interest rates will continue to limit the pace of the market's advance – even if companies continue to report solid increases in profits and dividends.

Next week's quarterly bulletin is likely to emphasise the Bank's continuing hard line on inflation.

Meanwhile, this weekend one can only envy the shareholders of Wm Low, who wait to see which suitor will stuff most cash into their pockets. Investors in Sainsbury, Tesco and the other large food chains are likely to be less sanguine. The enthusiasm with which this battle has been joined suggests that even the UK's most successful food retailers now face a much tougher and more competitive future.

Serious Money

Water: half full or half empty?

Gillian O'Connor, personal finance editor

This week's spurt of relief in water company shares prompts two thoughts. First, it is a classic example of investors being more worried by anticipation of bad news than by the news itself. Secondly, many water shares still look sound long term value.

Investors were – rightly – afraid that this week's new price caps for water companies (see page IV) would make it harder for the companies to continue paying out such munificent dividends. Brokers' analysts had done lots of pretty accurate sums about what regulator Ian Byatt would decide. But investors still held off until they knew for sure. Once the bogey could be viewed in plain daylight, it looked far less frightening.

Speculators who bought ahead of the review will generally have done well – but not if they bought South West, which fell because its price cap was tougher than expected. Moral, if you are going to speculate, go for a spread of shares – unless you are sure of your ground.

What matters to more serious investors is the outlook for water shares now. The sector dividend yield is more than 5.1 per cent compared with 3.8 per cent for the market. Yesterday many investors were arguing that most of the shares (but not the luckless South West) had a bit further to go short term – although prices were racing ahead as they talked. Ten per cent is probably the limit. But long term prospects make them look a solid investment.

Some analysts reckon the water companies have scope to increase dividends by over 4 per cent (inflation-adjusted) a year over the next five years. And the higher increases may come through in the early years. Not bad, given the lack of commercial risk.

Laterally minded investors also bought regional electricity shares after the water report.

That is too simplistic. There may be a case for electricity shares, but do not base it on water.

The Great British Public is thoroughly confused by the Great British Financial services industry. People are worried that they do not understand enough about more complicated products such as personal pensions to make an intelligent choice themselves. They think it vital that a financial adviser should be strictly independent, but very hard to find such independent advice.

These are some of the findings from the National Consumer Council's new MORI survey into what people think of personal financial services. The Council describes the lack of consumer confidence as "worrying". But in many ways it is rather encouraging.

For the public is right to be puzzled by many of the "products" being sold. It is also right to be suspicious of many of the people selling those products.

Consumers have read all the stories about mis-selling of personal pensions, abysmal life insurance surrender values, and ignorant salesmen. And they understand that a salesman who is paid mainly or exclusively by commission must find it hard to give genuinely independent advice.

Hence their worry. But hence also the first stirrings of change in a minority of life insurance companies. Only this week Norwich Union switched its sales agents from commission to salaries.

If commission is the root of all evil, do not waste time persuading your sales staff to rise above it – just remove the temptation.

Costs and commissions are investors' foes. Here is another example of costs at work. Pension top-ups, costly known as additional voluntary contributions (AVCs), may be a good idea, but you need to watch what you are contributing to.

A new survey from actuaries Watsons* confirms one long-standing worry (Weekend FT, April 9, page 11). If you opt for a free-standing AVC you may well get a worse result than if you take what your employer offers. For charges are likely to be up to twice as high.

Additional contributions seldom go into the main pension scheme: they are run separately. All companies with standard pension schemes have to offer an AVC, and most employers mop up the charges of the scheme. So assuming the underlying investments produce the same stockmarket performance in both cases, the in-house AVC is bound to give a better result.

That does not, though, mean that you should opt for a company AVC regardless. It depends what the company is offering. Some merely provide building society linked schemes – which may suit people very close to retirement, but not those with several years to go.

If your employer offers a good with-profit or unit linked scheme run by a financial company with a good record, that will probably be a better choice than a free standing scheme.

As Watsons suggests, the best of all worlds is an employer which offers its employees a choice of AVCs.

Advertising is an alternative scapegoat for financial upsets. How about a switch to the new Russian system? Businesses can only advertise actual dividend and interest rates paid in the past. Now there is a creative challenge.

■ The Watsons 1994 Survey is by Robert Teag, Watson House, London Rd, Reigate, Surrey, RH2 9PQ or tel: 0737-341144.

HIGHLIGHTS OF THE WEEK					
	Price	Change	1994	1994	
	Y'day	on week	High	Low	
FT-SE 100 Index	3062.8	+32.1	3520.3	2878.8	Interest rate nervousness
FT-SE MKI 250 Index	3640.2	+9.3	4152.8	3368.4	Bargain-hunting
BAA	953	-23	1083	880	Profit-taking
BTH	368.8	-8.9	401	344	Switch into Hanson advice
Bullough	157	+12	189	135	Profits recovery
Fortis	231.1	+7.4	285	208.4	Savvy bid speculation
Hall Eng.	193	+31	320	149	Squeeze
Lax Service	424	-40	573	416.4	Figures below expectations
Low (Wm)	323	+58	326	138	Bid by Sainsbury
Medeva	121.1	-16.1	187	120	Losses patent appeal
Merrydown	124	-8	250	113	Dividend falls
Shell Transport	730	-12	755	651	Profit taking on Bilton sale
South West Water	515.5	-18.9	675	484	Appealing against Ofwat
Thames Water	514	+20	811	434.4	Ofwat report benefits
United Biscuits	325.4	+6.9	398	302	Renewed bid speculation

AT A GLANCE

Finance and the Family Index

Car loans/Knight Williams III
Water shares/Week ahead/Directors' dealings VI
Car insurance V
Unit trust changes/Capex/Deposit rates VI
HIV questions/Q&A Briefcase IX

Unit trust sales

Net investment (£bn)

Source: ALTF

Mortgage arrears

More than 12 months (000)

Source: CML

Best June on record for unit trust sales

Unit trusts had their best June on record, with net sales of £1.1bn – 50 per cent up on £726m in May. The June figure was almost 80 per cent higher than that for June last year, when net sales totalled £610m.

Less than half the net sales last month were to the retail sector – the lowest proportion so far this year – with the rest bought by institutions, the Association of Unit Trusts and Investment Funds said.

The best-selling sectors among retail investors were UK growth, followed by UK equity income and international growth. Net sales of unit-trust personal equity plans were £1.1bn for the second quarter, down from £1.55bn for the first quarter, which is the traditionally busy end-of-tax-year sales period.

Mortgage arrears fall

Fewer homebuyers were in arrears with their mortgages at the end of June than six months earlier: 142,230 were more than 12 months behind with payments, compared with 151,810 at the end of 1993. Shorter-term arrears also showed an improvement. But lenders warned that rumoured government plans to cut back income support payments to unemployed homeowners could lead to a resurgence of payment problems.

Norwich Union switch

Norwich Union, the big UK insurer, has switched its life and pensions sales agents from commission to salaries. In March the insurer announced that it was suspending its entire sales force for a month for retraining, after the life industry's regulator identified breakdowns in management control. Instead of being paid by commission on the policies they sell, sales agents will receive a basic annual salary of £12,000 as well as commission. The number of branch offices is to be cut from 25 to 13.

Shares-for-Peps swap easier

Investors will find it easier to exchange shares for investments in a personal equity plan as a result of a change to the PEP rules. This Inland Revenue has agreed to a suggestion that an investor can sell shares and buy them back immediately for the PEP. In the past, investors had to wait until settlement day before they could buy back shares for the PEP.

Smaller companies cheer

Smaller company shares had another more positive week. The Hoover Govett Smaller Companies Index (capital gains version) climbed 0.8 per cent to 1,652.76 over the week to July 28. It is still down 2.3 per cent since the beginning of the year, but has suffered less than the FT-SE-AI-share index, which is down 7.8 per cent.

Inventories fever disperses doldrums

In the middle of the summer doldrums it usually requires something important for Wall Street traders to suddenly stop talking about the exciting issues of the day, which this week were – in no particular order – the impending baseball strike, the OJ Simpson case, and the state of Cindy Crawford's marriage.

It happened yesterday, however, and few could have guessed what it would be that so excited the traders on the floor of the New York Stock Exchange and in the trading rooms around Wall Street. Was it a presidential scandal? No. An invasion of Haiti? Wrong. A bank collapse? Think again.

The subject of everyone's discussions on Wall Street yesterday was inventories. Or, as the economics dictionary describes them: "stocks of raw materials, work in progress and finished goods." Exciting, isn't it?

While inventories do not normally make pulses race, Wall Street economists had palpitations yesterday when the second quarter economic growth figures were released.

The data showed a 3.7 per cent rise in gross domestic product between April and June. A figure that was at the bottom end of market expectations.

The real story, however, was in the inventories data. According to the Commerce Department, the value of inventories jumped \$27.9bn to \$38.5bn, the biggest increase in three years.

The rise was so large that it accounted for 2.2 percentage points of the 3.7 per cent gain in GDP. In other words, economic growth rose hand-somely in the second quarter less because demand for goods climbed, but more because companies bought materials that never left the factory floor or produced goods that never left the shelves. In fact, demand growth was relatively weak – final sales of domestic products rose only 1.5 per cent in the quarter.

A big build-up of inventories usually means one of two things. Either, the build-up was voluntary as companies produced more goods to meet an anticipated peak in demand. Or, it was involuntary as companies were left with an unexpectedly large

Wall Street

Inventories fever disperses doldrums

Dow Jones Industrial Average

Source: FT Graphite

amount of unsold goods because demand weakened. If it was the former, then it suggests that the economy will continue to grow strongly. If it was the latter, then it suggests the economy is slowing down, probably because of the recent rise in interest rates.

Which of the two factors were at work was the question everyone was asking on Wall Street. Elias Bikhazi, an economist at Deutsche Bank, asked: "Does it constitute an overhang for the second half?" John Ryding senior economist at Bear Stearns, said: "The question is, were the inventory accumulations unwanted?" And Ken Maryland of Society National Bank commented: "I've got to believe in some quarters it was unwelcome."

The bond market, typically, wasted little time worrying

about the answer might be. It decided that inventories rise in the second quarter because demand had slowed unexpectedly. This could only be good news for investors in fixed-income securities, who fear that rising economic growth will push up inflation, which undermines the value of their investments.

The rush to buy bonds in the wake of this calculation lifted the 30-year government bond almost one and a half points during the morning, and pushed the yield – a key determinant of long-term interest rates – down from 7.55 per cent to 7.41 per cent.

Share prices rallied along with bonds, the Dow Jones Industrial Average climbing 30 points as equity investors bet that the apparent slowdown in economic growth, hastened by the jump in inventories, would dissuade the Federal Reserve from raising interest rates again. The Fed's open market committee is due to meet on August 16, and most economists were thinking this week that it would vote to raise rates one more time. The inventories data, however, have given the econ-

omists cause to think again.

Yet, not everyone on Wall Street was convinced that the rise in inventories was good news for bonds and stocks. A few discordant voices pointed out that the bulk of the rise in inventories was at the wholesale trade level, which is largely imported products.

That's a sign that companies are buying goods ahead of price increases," explained Mike Strauss, an economist at Yamaichi International. In other words, inventories rose not because of slower domestic demand, but because US companies were stockpiling materials and goods produced abroad before prices went up.

Strauss, however, was in a minority. For most on Wall Street, inventories were up because demand was down. This suggested interest rates probably would not go up, so bond yields should go down, and stocks up.

Patrick Harverson

Monday	3741.34	+ 06.80
Tuesday	3735.58	- 06.16
Wednesday	3720.47	- 15.21
Thursday	3750.83	+ 10.36
Friday		

ICI finds the right chemistry

impressive 9 per cent. Continental European sales increased 10 per cent, compared with a flat first quarter, while UK sales rose 13 per cent.

The sales recovery should help ICI's profits. The company is highly geared. Once it has covered its high fixed costs, any additional revenue should quickly drop to the bottom-line.

But Hampel was cautious. Some trends were sustainable, he admitted. Prices of PVC and methanol were rising and there were clear signs of recovery around the globe.

"There's been an upturn, but not as strong as might be deduced from our figures," he stressed.

There were plenty of one-off events, he explained. The UK fertilisers business, long a drain on ICI's profits, was breaking even thanks to a col-

Bottom Line

ICI finds the right chemistry

ICI

Share price relative to the FT-SE-AI-Share Index

Source: FT Graphite

programme, which contributed about half of the 40 per cent rise of profits, is beginning to run out of steam.

Hampel estimated that the programme had saved more than £210m during the first half, and that the savings target of £450m next year was within reach, he said. Indeed, cost-cutting had been achieved faster than expected, said Hampel. This might well have been the consequence of the demerger which had allowed managers to focus more clearly. ICI was now looking a far tighter ship.

The group would continue to look for savings, said Hampel. But analysts wonder how much more can go.

Earnings growth will increasingly have to be driven by the recovery and additional investments. The company is

betting on areas where it believes it has a technological edge, such as CFC-substitutes and PET and PTA, materials for plastic bottles and polyester. It is also betting on Asia-Pacific where last year, for the first time ever, the group invested more than in the UK.

Meanwhile, the group continues to move away from commodity petrochemicals. Hampel repeated his view that ICI would never again build an ethylene plant, and would consider offers for a stake of the Teesside plant, Europe's largest ethylene plant, and fourth most efficient. The group was still looking at the possibility of selling the joint-venture PVC business.

ICI's strategy looks sound. Its focus since the demerger is undoubtedly tighter. The outlook seems good. The problem for investors is that ICI's shares have outperformed the London stock market by 13 per cent since the beginning of the year. Those holding the shares should hang on. Those without have, for moment, missed the boat.

Paul Abrahams

FINANCE AND THE FAMILY

Key to a cheap M-reg

Bethan Hutton explains that you save money if you do not own your car

This August, record numbers of new cars are expected to be driven away from showrooms by people who do not own them.

Britain is not about to suffer an upsurge of car crime. Many of this year's M-reg cars will be acquired by consumers using personal contract purchase (PCP) schemes, which allow you to drive off in a new car every two or three years, without ever paying the entire cost. PCP is the fastest-growing way of buying a new car. Ford introduced its Options plan in 1990, and says it expects Options purchases to account for more than half its sales within two years. All the big manufacturers have their own versions, together with some finance houses which run schemes for dealerships.

From September, Midland plans to operate the first independent PCP scheme aimed at consumers. It will offer holders of Midland credit cards a telephone-based scheme operated by its car finance subsidiary, Swan National, which can be used to finance any make of car.

All PCP schemes work in roughly the same way:

■ Dealer and customer agree a price - for example, £13,581 for a Vauxhall Cavalier 1.8 GLS.

■ Customer pays a deposit or trades in another car - eg 30 per

Best of the high street car loans				
Lender	Monthly payment	Total payable	APR	Notes
Abbey National	£170.50	£2141.50	14.8%	A
Alliance & Leicester	£170.50	£2141.50	14.8%	A B
Bank of Scotland	£168.85	£2178.50	14.6%	C
Halifax	£177.32	£2363.52	17.9%	D
Midland	£172.96	£2226.56	15.8%	E
TSB	£172.97	£2226.92	15.9%	F

Source: Moneyfacts (for details see page 10). Examples are for loans of £5,000 over 3 years, without insurance. A: Direct Debit repayments only. B: Promotional car loan rate until September 1994. C: 0% fee of 2%. D: Promotional car loan rate until August 31. E: Specific incentives available for car loans. F: Rate includes 2% discount until August 3.

cent deposit on the Cavalier (£4,074) leaves a balance of £9,507.

■ Dealer works out a "future value" - what the car is expected to be worth second-hand at the end of the agreement, which can last between one and four years. The Cavalier should have a residual value of £5,839 after two years.

■ Customer makes monthly payments composed of interest on the whole balance, plus repayments of the difference between the car's price (less deposit) and the future value - £3,668 in the Cavalier's case. Payments are £214 a month for two years, at an APR of 9.7 per cent.

■ At the end of the agreement, the customer can choose to pay the balance (the "future value"), and own the car outright; hand back the keys and walk away, having, in

effect, hired the car for a few years; or swap the car for a new one, using any excess over the predicted future value as a deposit. Most drivers take the last option.

The attraction of PCP is that monthly payments are lower than with a straight loan or hire purchase, where you repay the entire cost of the car over the term of the agreement.

If you want to use PCP to roll over to a new car every few years, it is important to pick a car with a high resale value. With PCP, you pay for the depreciation plus interest, never the residual value. Monthly payments could be lower with a more expensive car which keeps its value well, rather than a cheaper car which depreciates rapidly. Midland says it will be able to

give independent advice on precisely that.

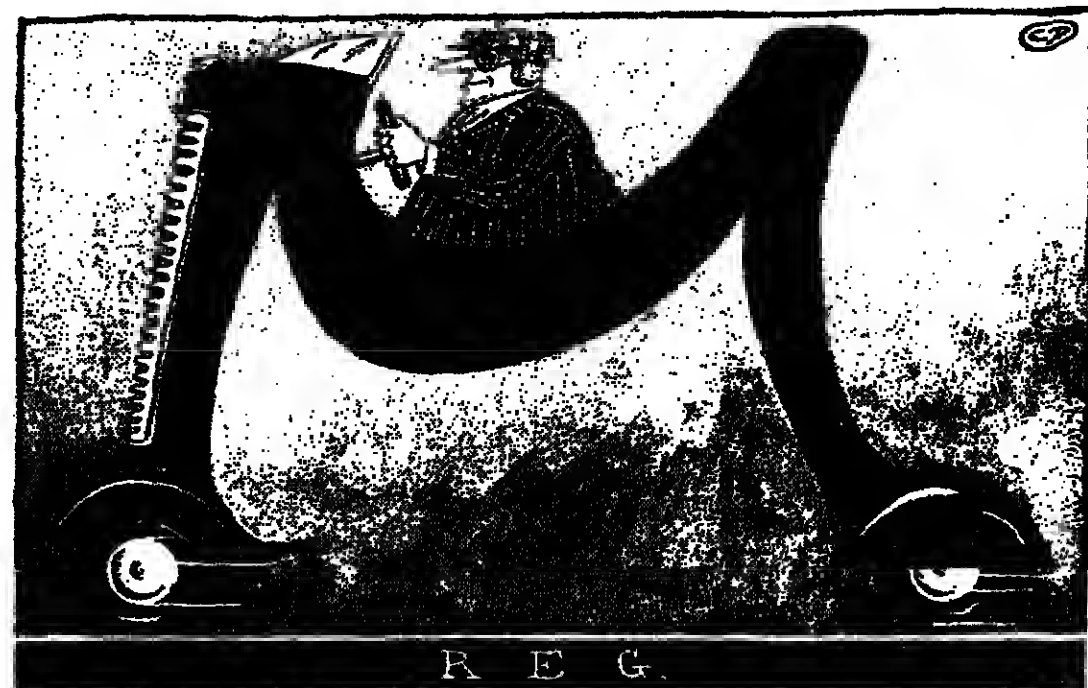
The most important factor in the amount you pay is probably not the car's price or its future value, but the interest rate.

Take the example of an identical Ford Mondeo GLX 1.8, bought using Ford's own Options scheme, or Midland's new Carchoice. Ford estimates the on-the-road price at £14,160, and the future value at £5,385 after two years. Midland's figures are a similar, £14,084 and £5,636 respectively.

But based on a 30 per cent deposit and mileage of 12,000 a year, the monthly repayments work out very different, at £250 with the Options plan, and £175 with Midland. This is mainly due to the different APRs: 15.8 per cent with Ford, and 5.8 per cent with Midland. All the savings you bargain so hard for can be wiped out by an extra few percentage points on the APR.

As the table illustrates, even among six of the best car loans available from high-street names, the total repaid on a £5,000 loan can vary by as much as £342. So finding the right finance deal can save you even more money than finding the lowest-priced car.

PCP is not the right choice for everyone. It is usually available only on new cars, or sometimes



those up to two or three years old. If you want to buy a car outright, it may not be convenient to have to pay a large lump sum after two or three years. Agreed future values only apply if the car is in good condition, and has kept within certain mileage limits - usually 6,000 to 12,000 miles a year.

At this time of year, banks and building societies trumpet their dis-

counts and offers on personal loans to attract car buyers. Do not ignore the finance offered by car dealers. There are 0 per cent finance offers around, though you usually need to make a 50 per cent deposit and pay the balance over 12 months.

Neil Tomkin of Lombard North Central, a large finance house, says it is a myth that buyers with cash from a personal loan have more bar-

gaining power to push down the price of a new car. Dealers' margins have shrunk, leaving them less room for manoeuvre, but Tomkin argues that buyers may actually get a better deal on a car if they take the dealer's own credit. The dealer earns commission on the finance as well as the car, and could possibly afford to trim the car's price a little more.

Action group enters fray

Scheherazade Daneshkhu and Barbara Ellis on Knight Williams

The battle lines are drawn between Knight Williams, one of the UK's largest independent financial advisers, selling mainly to the retired, and its most disgruntled customers, the Knight Williams Investors Action Group.

The field is also strewn with MPs, the Treasury, the Consumers' Association, the Securities and Investments Board which is the chief regulator for financial services, and Fimbra, the self-regulating body for independent financial advisers.

What is it all about? The MPs, who include Sir David Steel, the former Liberal leader, last week tabled an all-party early day motion in the House of Commons. It read: "This house is concerned by the number of complaints received

from constituents, many of them retired people, who are dissatisfied at the service they have received from Knight Williams which has resulted in constituents suffering varying degrees of loss. It is also concerned about the apparent inability of the Sib and Fimbra to bring full light to bear on the subject and urges the government to institute a thorough inquiry into the whole matter."

The action group has submitted an analysis of 125 complaints to the Treasury.

What does KW say? It has accused three of the MPs - John Gennell, Sir Anthony Grant and Sir Geoffrey Johnson Smith - of having "misleadingly" signed the early-day motion, because of their links respectively with Yorkshire Fund managers, Barclays

Bank and Eagle Star. It says these are competitors which could view KW as a "potential acquisition".

What is their response? Eagle Star: "The concept of being in competition with KW is a very fanciful notion - we are chalk and cheese." Barclays: "We don't see ourselves as competitors of KW and it is mischievous to suggest that."

What are Investors' complaints? The action group is giving no details because it does not want KW to "pick people off one by one." However, KW has been the subject of considerable press criticism. Which? the Consumer Association's monthly magazine, has run case studies involving accusations of inappropriate investments, "churning" - encouraging customers to sell their investments needlessly and buy KW funds to earn the

adviser commission - and of lack of independence, its target market, the elderly, is seen as very vulnerable to abuse.

Charges on its unit trusts are the highest in the industry with an initial charge of 6.39 per cent and an annual charge of 2.5 per cent.

What is KW's reply? It says some customers panicked and sold after world markets fell in the aftermath of the 1990 Iraqi invasion of Kuwait but that those who stayed with KW have more than made good their losses.

It also says that complaints are small compared to its customer base of 24,000; of the 218 Fimbra-registered complaints, it has been found at fault in 21. However, Fimbra suggested that it strengthen its compliance function with an appointment which had Fimbra's

Knight Williams' performance				
Investment	1 year	3 years	4 years	5 years
KW Global Inc & Gwth	108.3	125.5	125.2	132.0
Av broker life fund	103.8	122.8	126.0	135.1
Av building society	102.9	114.0	124.0	135.3
FT-A World Index	109.4	144.0	147.9	139.9
Av unit trust	108.3	137.4	137.1	143.2
Av investment trust	114.0	145.7	148.3	151.5
FT-SE-A All-Share	112.0	148.2	152.7	168.3
UK retail price index	102.6	107.9	114.1	125.3

Source: Moneyspot. The table shows the value of an £100 investment. Figures run from July 1 one year to July 25 two years for each period. Offer to bid, not income reinvested; other figures are net of fund charges, where applicable. The investment trust figure does not include costs.

approval. KW recently appointed Colin Pinnell, formerly head of legal services at Fimbra, to oversee its legal and compliance department.

KW says its charges are not high when you compare them to the discretionary portfolio management service of any broker. More than 80 per cent of its customers are put into its funds.

I thought you said it was an IFA? Under the current rules, an IFA (and many stockbrokers are IFAs) can run in-house funds and advise their clients to invest in them. Fim-

bra is meant to monitor any potential conflict of interest. KW, which used to pay its advisers higher commission for selling KW funds than others, stopped this last year and, since March, says it has put its 120 or so advisers on salaries.

It says that since it gets other investment houses (including James Capel, Gerard Vivian Gray, Mercury, Lazard, Schroder and Barings), to manage the funds in a way similar to broker bond funds, it fulfils its role as an IFA.

What are broker bonds?

With a broker bond fund, clients' money is invested in life insurance funds and unit trusts. The idea is that the intermediary can switch cheaply between companies to catch the best sectors.

The Sib nearly outlawed broker funds in 1990 because of a potential conflict of interest for the intermediary, worries about investment performance and double charging - the investor pays the fund manager and the intermediary.

Surely what matters in the end is investment performance? Yes, but high annual charges eat into a greater proportion of a fund's return. The table shows the performance of Knight Williams' largest fund, Global Income and Growth, with about £300m. Its performance is not out of line with the average broker life fund but it has been beaten by the FT-A World Index and the average unit and investment trust (apart from over one year, when KW beat the average unit trust). Over five years, a building society investment would have proved more profitable. See Page VI

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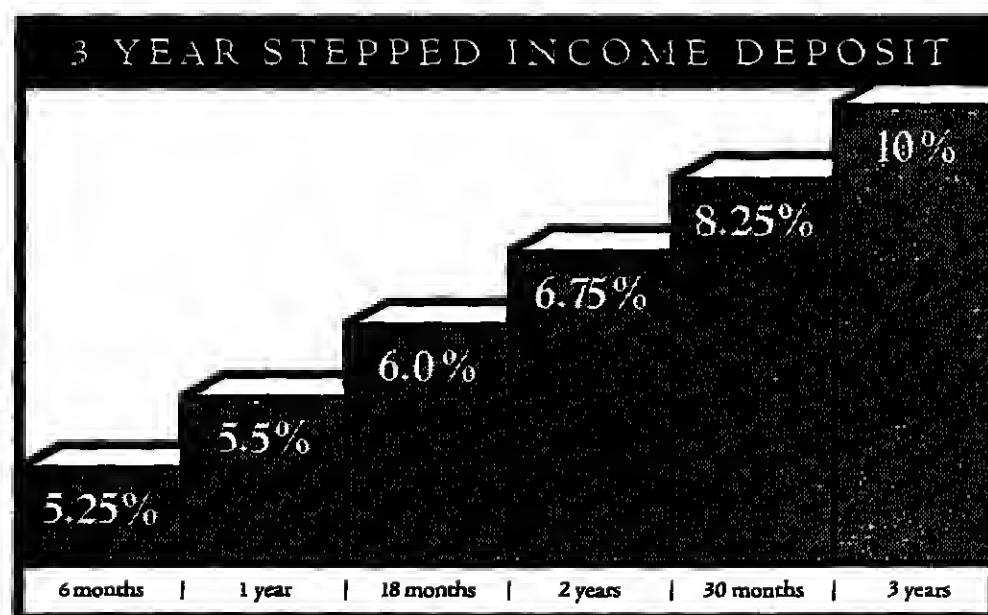
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FINANCE AND THE FAMILY

Water shares offer stable income on tap

Water investors should be feeling rather pleased following the announcement this week of a new price regime for the UK's 31 water and sewerage companies.

While the industry regulator has set tougher price limits for the companies, he has managed to leave enough leeway on average to give better returns to shareholders than those expected just a week ago.

Ian Byatt, director-general of the Office of Water Services (Ofwat), has set the price increases for the next 10 years at an average 1.5 per cent above inflation - a formula known as the K factor.

This compares with an average 5 per cent a year since privatisation in 1989.

The increase has been heavily weighted towards the first five years, with an average K of 1.4 for 1995-2000 falling to 0.4 to 2005. This is when companies will need the high-

est price rises to fund the vast capital spending programme necessary to bring the industry up to EU standards. Byatt's tougher approach on the second five years is certain to be the subject of another review in 1999, rendering those figures almost irrelevant.

While the price limits for 1995 to 2000 fall roughly in the

squeezing budgets for elements such as population growth.

Ofwat's pronouncements were greeted as tough but fair by nine of the 10 water and sewerage companies. The one exception is South West Water, which has enjoyed a K factor of 11.5 for the last three years due to the vast amount of spending it faces to clean up

Indeed, companies such as Thames Water - widely regarded to have been given more stringent targets - were confident of achieving what they called "satisfactory returns to shareholders".

Analysts define "satisfactory" as dividend growth approaching an annual rate of 4 per cent above inflation for the sector as a whole, against expectations before the review of 3 per cent.

The price review's findings make the sector look much more attractive in terms of returning a stable income. Some analysts question, however, whether investors should get over-excited about the sector's prospects. "You have to ask whether it will out-perform the market over the next few months," says Mr Bill Dale, an analyst with S G Warburg Securities. While the equity market will be driven by recovery, the risks such as increasing environmental legislation continue to affect water shares.

The case for water invest-

Peggy Hollinger on what the new price regime means for investors

middle of analysts' expectations. Byatt's trick was to reduce substantially the capital spending burden faced by water companies. Instead of the £16bn which they had realistically expected, although this was not what they told the regulator in their submissions.

Byatt's negotiations with the government brought the figure down to £14bn.

The reduction is due both to deferring some spending and

its extensive coastline.

To almost universal surprise, South West was given a K of just 1.5 for 1995 and 1 for 1996-2000 on the back of virtually halved capital expenditure. The group, which argues Byatt has not allowed enough capital spending to fund future obligations, is challenging his decision at the Monopolies and Mergers Commission.

Nevertheless, the other water companies were relieved.

K-Day for the UK water companies

Water sector

Relative to the All-Share (FT-SE-A) Index

110

105

100

95

90

85

80

75

70

65

60

55

50

45

40

35

30

25

20

15

10

5

0

-5

-10

-15

-20

-25

-30

-35

-40

-45

-50

-55

-60

-65

-70

-75

-80

-85

-90

-95

-100

-105

-110

-115

-120

-125

-130

-135

-140

-145

-150

-155

-160

-165

-170

-175

-180

-185

-190

-195

-200

-205

-210

-215

-220

-225

-230

-235

-240

-245

-250

-255

-260

-265

-270

-275

-280

-285

-290

-295

-300

-305

-310

-315

-320

-325

-330

-335

-340

-345

-350

-355

-360

-365

-370

-375

-380

-385

-390

-395

-400

Companies are permitted to increase charges on average by RPI plus limit shown

Water & Sewerage	Actual price limits (1995-2001) %	Pre tax profits (£m)	Dividend value %	Compound annual earnings per share growth %	Compound annual dividend per share growth %	Share price relative to index %
Anglian	1.5	132.2	5.19	8.90	10.48	-2.47
Northumbrian	2.5	82.8	4.84	1.82	11.01	-11.38
Northwest	2.5	269.0	5.21	12.25	10.10	-1.78
Sewern Trent	0.5	281.4	4.97	8.55	11.18	1.61
Southern	4.0	127.5	4.91	10.95	11.40	4.46
South West	1.5	93.0	6.17	2.34	10.03	-6.10
Thames	0.5	241.7	5.48	10.84	10.48	-6.42
Welsh	0.5	144.2	4.98	10.83	10.88	13.34
Wessex	1.5	103.3	4.58	10.11	11.51	16.88
Yorkshire	2.5	143.5	5.13	9.97	10.31	-1.23
WEIGHTED AVERAGE	1.5	169.9	5.16	8.10	10.60	

*1.0 from 1997-98

Source: Company accounts, Datastream, OFWAT

ment becomes stronger when looking at individual companies. Following the review, they can be placed in four categories:

■ **The Winners** - Anglian and Southern. Both have been given high K factors relative to their capital spend. Anglian's K factor was in line with estimates, but the capital spend has been sharply cut from a forecast £1.85bn to £1.4bn. Southern also comes up trumps with a K factor at the top end of the range and

authorised commitments at £1.2bn - bang in the middle of expectations.

■ **Second Place** - North West, Severn Trent, Northumbrian, Welsh. North West, identified as one of the most efficient companies on water and waste. It is already boasting about having beaten Byatt's efficiency target of 1 per cent cost savings a year.

Severn Trent, which is not heavily exposed to the expensive coastal clean-up legisla-

squeezed capital expenditure of £1.8bn. Northumbrian is confident it can live with the tough targets it has been set, even though rated by Byatt as one of the least efficient on water and sewerage services.

Although Welsh was given a positive K of 0.5 against expectations of a negative number, it still has tough efficiency targets. Nevertheless it has a strong balance sheet.

■ **Rest of the pack** - Wessex, Thames and Yorkshire. Wessex received a K roughly in

line with expectations at 1.5 and was slightly squeezed on spending with capital expenditure of £500m. Yet increasingly the future of this company will depend on its waste management business.

Thames and Yorkshire appear to have been given challenging targets.

■ **Left behind** - South West Water. It is pointless to consider the K of 0.5 given to South West until the MMC has a chance to examine Byatt's reasoning.

New Issues

Pillar Property Investments is coming to the market valued at £169.7m. Set up by British Aerospace and financial backers as a vehicle fund to prey on quality properties in 1991, it has Raymond Mould and Patrick Vaughan as chairman and chief executive respectively.

Mould and Vaughan know about timing - they sold Arlington Securities, the property company they founded, to BAE for £278m in 1989. It was this expertise which led them to take the helm at Pillar.

A total of 60m shares at 150p have been placed with institutions, with 15m subject to claw-back for the public offer. This represents only a 5 per cent discount to the group's net asset value. The price is full, reflecting the quality of Pillar's £352m portfolio.

Applications must be in by August 5 and dealing will begin on August 15. BZW underwrote the offer.

Week ahead

T Cowie

Share price relative to the FT-SE-A All-Share Index

500

400

300

200

100

0

-100

-200

-300

-400

-500

-600

-700

-800

-900

-1000

-1100

-1200

-1300

-1400

-1500

-1600

-1700

-1800

-1900

-2000

-2100

-2200

-2300

-2400

-2500

-2600

-2700

-2800

-2900

-3000

-3100

-3200

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-4000

-4100

-4200

-4300

-4400

-4500

-4600

-4700

-4800

-4900

-5000

-5100

-5200

-5300

-5400

-5500

-5600

-5700

-5800

-5900

-6000

-6100

-6200

-6300

-6400

-6500

-6600

-6700

-6800

Week ahead

T Cowie

Share price relative to the FT-SE-A All-Share Index

500

400

300

200

100

0

-100

-200

-300

-400

-500

-600

-700

-800

-900

-1000

-1100

-1200

-1300

-1400

-1500

-1600

-1700

-1800

-1900

-2000

-2100

-2200

-2300

-2400

FINANCE AND THE FAMILY

Drive down your car insurance bill

Joanna Slaughter explains why most people are paying less

Competition, better underwriting and fewer thefts have been good news for drivers. Over the past year, some motor insurance premiums have fallen by between 5 and 10 per cent, according to Mark Wood, managing director of the Automobile Association's insurance and financial services.

He says: "The absolute incidence of motor crime reduced very sharply in 1993 and there has been a massive number of new market entrants, both from continental Europe and new start-up operations. Traditional insurers have been reducing prices and the new direct writers are paying to build up a position in the market."

Direct insurers sell their policies over the telephone, cutting out middlemen, and probably account for around a third of the market. One

of them, Direct Line, is the largest motor insurer in the UK.

The irony is that although they started out as niche players, they now tend to occupy the middle ground, leaving the niches to the conventional insurance companies.

Michael Edwards, deputy managing director of The Insurance Service - the direct insurance arm of Royal Insurance - says much of the cross-subsidy between good and bad risks has been eliminated due to changes in underwriting techniques in recent years. Inevitably, though, this has not benefited everyone.

The virtual end of the 60-year-old knock-for-knock agreement - under which insurers agreed to pay claims presented by their policyholders irrespective of their responsibility for an accident - means that comprehensive drivers are no longer subsidising third-party risks.

Many young drivers who had been shielded by their parents' insurance have been hit hard, too. A survey in the latest edition of *Which?*, the Consumers' Association magazine, shows that the cost of a policy for a man with an expensive car, whose wife and son are also covered, has almost tripled over the past two years.

Young drivers with high-value cars who arrange cover in their own names are likely to find this very expensive. I asked three direct insurance companies and three brokers to give quotations for a 24-year-old journalist with one speeding conviction who was seeking comprehensive insurance for the first time on a 1992 Ford Escort XR3i. One quotation was to be based on a south London post code, the other on a post code in Norfolk.

Direct Line, Churchill and The Insurance Service would not cover either risk. AA Insurance quoted £4,855 (in London) and £3,282 (in Norfolk), with a £175 compulsory excess. Telesure, the UK's first tele-broker, produced rates of £3,508 (London) and £2,647 (Norfolk), but with a £350 excess. And Swinton quoted £4,086 (London) and £2,894 (Norfolk), with a £600 excess.

Many young drivers cut costs by taking third party - the legal minimum protection - instead of comprehensive cover. Simon Ward, Telesure's managing director, says this would cut the cost for the south London driver to £1,705.

Costs also fall when young motorists have established a no-claims driving record. If the south London driver had completed four years without a claim, the AA would have quoted a premium of £1,742.

No insurance company is a best buy for every risk, and drivers should not accept the first quotation offered. Direct insurers tend to be around 10 per cent cheaper on many standard risks but are unlikely to offer cover to drivers who own high-value cars or who live in a high-risk area.

Edwards says his company will not quote on 10 to 12 per cent of motorists. But Telesure scans 150 schemes from 32 insurers, and Ward believes it can quote for 98 per cent of the motorists who come to it. Meanwhile, James Duffell of Norwich Union - a broker-orientated



Best insurance buys for lowest risk areas

Provider	Premium £	Excess £	Type of provider
Swinton	219	150	Intermediary
The Ins. Service	228	75	Direct ins.co
Jardine	233	100	Intermediary
Countrywide	236	150	Intermediary
Bedford Parkline	249	100	Insurance co
Endsleigh	271	50	Intermediary
The Leeds	275	100	Intermediary
AGF	276	50	Insurance co
Bain Clarkson	279	100	Intermediary
C E Heath	282	100	Intermediary
MT	286	75	Insurance co
Orion	290	100	Insurance co
AA	292	100	Intermediary
Direct Line	293	50	Direct ins.co
Ibox	297	100	Insurance co

Source: Consumers' Association

Best insurance buys for highest risk areas

Provider	Premium £	Excess £	Type of provider
The Ins. Service	385	75	Direct ins.co
Countrywide	434	300	Intermediary
MT	466	75	Insurance co
Jardine	474	100	Intermediary
AA	481	100	Intermediary
Swinton	507	-	Intermediary
Engle Star Direct	511	50	Direct ins.co
Independent	517	50	Insurance co
Direct Line	521	50	Direct ins.co
Link	526	200	Insurance co
Fitzall	537	50	Intermediary
Endsleigh	537	50	Intermediary
The Service	537	50	Insurance co
C E Heath	545	100	Intermediary
Bank of Scotland	560	-	Intermediary

Source: Consumers' Association

company which does not have a direct arm, says: "We are much better for hot hatches, younger drivers and executive cars."

Like other insurers, Norwich also has such "extras" as standard breakdown cover for women and older drivers; no loading for un-garaged cars; and a limited mileage policy that brings down costs for

the occasional driver.

Although direct insurers are often the cheapest for the "average" motorist, this is not always the case. Insurance brokers gave seven out of the 21 lowest quotes, according to *Which?*

The tables show the 15 most competitive quotations obtained by the Consumers' Association for a typi-

cal family car - in this case, a four-year-old Rover 800SE garaged overnight. The policy covers a 45-year-old manager of a printing company (with a full licence and 25 years' driving experience) and his wife. The driver has a full no-claims driving record, no accidents, claims or convictions, and drives to work.

The *Which?* survey revealed huge premium variations, even for this standard cover. While Swinton - a broker - quoted £219 for the lowest-risk area, five insurers charged more than £500. Similarly, the cost of cover at The Insurance Service for the highest-risk area was £385, but premiums with the five dearest insurers topped £1,000. The Pearl charged a staggering £2,431.

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FINANCE AND THE FAMILY

'Smug and greedy trusts'

The spotlight has been on the life insurance industry debate over the disclosure of charges. From next year, life companies will have to reveal to private investors the amount of commission they pay to financial advisers for selling their products.

Unit trusts, which also pay commission to financial intermediaries have so far escaped the same scrutiny. However, a prominent figure in the unit trust industry, Tim Miller of Portfolio Fund Management, believes that Britain's unit trusts are smug and greedy and need to change radically if they are ever to become mass-market investments.

Miller used to be marketing director at M&G, the UK's largest unit trust group, after being managing director of Framlington unit trusts. He believes that a clear explanation of the risks, rewards and costs involved is the key to attracting a broader public.

A working party of the Securities and Investments Board, the financial services watchdog, is studying disclosure of

unit trust commissions and charges. Miller, who used to serve on it, says it could help both investors and the industry by recommending that unit trusts adopt the style of disclosure used in the US mutual fund industry. This would mean showing the effect of charges over different periods of time using a standard growth rate of 5 per cent for total return but not distinguishing between income and capital growth.

"For many years, the unit trust industry has preened itself in comparison with life companies because of the transparency and apparent low level of its charges. But I think we may have been deluding ourselves," says Miller.

The typical unit trust makes charges of 6 per cent initially and 1.25 per cent annually, adding up to 31 percentage points over 20 years. This is more than twice the total of 13.25 percentage points over 20 years which was the limit in force before deregulation in 1979.

The dubious honour of running the highest-charging unit

trust goes to Fimbra member Knight Williams, according to the Association of Unit Trusts and Investment Funds. Four of KW's in-house trusts charge 6.39 per cent initially and 2.5 per cent annually, making a 20-year total of 56.39 percentage points - more than four times the pre-deregulation level.

The accompanying table

Why unit trusts must change if they are to have wider appeal

shows a selection of low-charging unit trusts with minimum investment levels low enough for personal investors.

Money market funds carry the lowest charges, followed by index-tracked - unit trusts which mirror the performance of a stock market index.

Although unit trust managers already have to declare initial and annual charges, Miller says investors find the

long-term effect of these apparently small numbers hard to grasp.

Part of the reason is that, until recently, high charges have been masked by long-term rates of return of between 10 and 15 per cent a year.

An annual charge of 1.25 per cent would knock 8 per cent off a 15 per cent return but it would demolish 25 per cent from a 5 per cent return.

"The US system makes charging policies crystal clear and the result is widespread competition on charges," said Miller, who suggests that applying the US system in Britain could help unit trusts gain investor-confidence and increase their share of the savings market from the current 3 per cent to something more like the 17 to 20 per cent savings market share of American mutual funds.

The leading exponent of low-cost funds in the US is Vanguard group of Valley Forge, Pennsylvania, now ranked second to Fidelity in size, having climbed from \$7bn assets under management in 1983 to

around \$114bn. In the same time, Fidelity grew from \$20bn under management to \$221bn.

Vanguard charges 0.4 per cent annually on equity funds against an industry average of 1.34 per cent, and 0.25 per cent on bond funds against an industry average of 0.63 per cent.

Last year, a comparison by Morningstar Inc., the Chicago-based financial services and information firm, found that Vanguard's bond funds had averaged an annual return of 11.32 per cent over the past 10 years against Fidelity's 10.83 per cent, allowing for charges and expenses. Over five years, Vanguard's return on bond funds was 11.33 per cent against Fidelity's 9.9 per cent.

But Fidelity was ahead on equity funds which had produced an average return of 14.01 per cent over 10 years and 16.23 per cent over five years, against Vanguard's 10.83 per cent and 12.52 per cent averages for the same periods.

Jack Bogle, chairman of Vanguard, is also a believer in the concept that a randomly-selected portfolio of stocks often

LOW CHARGE EQUITY FUNDS						
Fund	Minimum investment	Charges %	Performance and sector ranking	1 yr	3 yrs	5 yrs
UK EQUITY GROWTH						
Fleming Growth	10,000	0 1.5	96.80	10	125.20	83
Lazard UK Capital	5,000	0 1.0	103.44	26	130.53	57
Murray UK Growth	500	1 1.5	100.55	52	118.81	105
Sector avg/no. of funds			99.92	145	121.43	121
UK EQUITY GENERAL						
Fleming Capital	10,000	0 1.5	102.02	20	120.03	76
Gartmore UK Index	5,000	0 0.5	103.12	11	135.26	20
Lazard Income & Growth	5,000	0 1.0	104.80	5	125.63	18
Sector avg/no. of funds			98.64	111	127.43	95
UK EQUITY INCOME						
Fleming Income	10,000	0 1.5	104.32	14	126.06	54
Lazard UK Income	5,000	0 1.0	104.47	13	136.06	23
Murray Equity Income	500	1 1.5	99.56	43	122.63	72
Sector avg/no. of funds			99.78	104	127.36	101
UK SMALLER COS						
Aberforth UK Smaller cos.	5,000	0 0.8	108.81	20	159.51	17
Dimensional UK Smaller cos.	5,000	0 0.4	109.49	16	147.89	29
Lazard Smaller cos. Growth	5,000	0 1.5	107.02	25	165.18	12
Murray Smaller cos.	500	1 1.5	108.77	19	174.72	8
Sector avg/no. of funds			106.53	66	148.03	60
UK BALANCED						
Cazenove Utility & Bond	3,000	0.2 0.5	104.21	2		
Sector avg/no. of funds			99.53	45		
INTERNATIONAL BALANCED						
MW Joint Investors Balanced	10,000	0 1.5	108.79	2	130.88	10
Sector avg/no. of funds			101.09	25	131.68	18

Source: Audit, Microcap, unit trust groups. The table shows the performance of £100 invested to July 1 1994 (after tax but not income reinvested).

performs as well or better than a gross return that is reduced, dollar for dollar, by the cost incurred in its ownership," he wrote in a book published in the US (Bogle on Mutual Funds, Irwin). "All other things being equal, lower costs mean higher returns."

Barbara Ellis

The Professionals

A discreet lifting of the skirt

Joanna Slaughter visits Cazenove in a series on private client investment managers

Discretion is of prime importance in the private client department of stockbroker Cazenove & Co, so much so that the firm's partners decline to be quoted by name in the press. As a spokesman says: "We have never advertised. But we must occasionally raise our profile."

Cazenove's most public piece of profile-raising was probably the launch of its unit trust subsidiary seven years ago, which one partner described as "Cazenove lifting its skirts a little". The skirt-lifting was designed to provide the firm with a shop-window. The holdings in the core trust, the Cazenove Portfolio Fund, which has a minimum investment of £5,000,

replicate those of a typical private client portfolio.

The private client division of Cazenove Fund Management uses unit trusts where appropriate - a spokesman reckons a portfolio needs to be worth some £1m before it justifies a direct investment in individual overseas stocks - but its fund managers will not necessarily choose the house collective funds for clients.

Cazenove & Co is an independent partnership, wholly owned by its 60 partners, and Cazenove Private Client Portfolio Management acts in an agency capacity on behalf of its clients.

Four partners oversee the private client department, and 15 managers look after clients'



portfolios, assisted by nine deputies.

All new clients are interviewed by a partner, who

assesses their investment requirements, and places them with the fund manager most suited to them.

Private clients come from partners' families and friends, from the families of companies that Cazenove has brought to the public, and from personal introductions from solicitors and other advisers. Cazenove accepts new clients only on a discretionary basis and they must use the firm's safe custody arrangements.

There are no fixed fees. Clients pay a sliding scale of commission and a 0.1 per cent safe custody fee. Cazenove robustly defends its adherence to traditional charging practices, arguing that a fixed annual fee "encourages you to do nothing

for a client. We think commission is fairer to clients."

Portfolio valuations that are sent to private clients, show the performance on the first page; every transaction is itemised; and the client is provided with an income audit trail.

The house investment style is described as "international and equity-orientated, tending to the conservative, with a little spice here and there".

The private client fund managers aim to create strong diversified equity portfolios, and they have access to the research and resources of the whole firm. The Cazenove UK investment research department follows some 350 companies, and Cazenove's position as a corporate broker provides a ring-side seat for new and smaller companies.

Cazenove is broker to 51 companies in the FT-SE 100 share index, thus providing private client managers with opportunities to meet these managements. The firm has offices in North America, Europe, Japan, South East

Investment managers: factfile 6

Cazenove (Cazenove Fund Management) Established: 1823
Regulation: SFA
Number of offices in UK: Three (London, Salisbury, Jersey)
Number of offices worldwide: 9
Funds under management: £3bn (private clients); £9bn (total)
Number of UK private clients: 3,000
Number of expatriate/foreign national private clients: 150
Minimum investment for private clients: No rigid rules
Current asset allocation for private clients: UK equities, 51%; overseas equities, 20%; fixed-interest, (cash, index-linked) 29%
Average annual portfolio turnover: 30%
Fees: Discretionary clients, sliding commission plus 0.1% safe custody charge

Asia, Australia and South Africa, which feed macro-economic and corporate information to the UK fund managers.

The managers looking after private clients have a daily briefing from Cazenove & Co, whose research department provides a list of recommended stocks, but there is no compulsion to buy these.

The conclusions of the asset allocation committee, which meets every three months, are tailored for each portfolio, in line with client requirements.

Currently the recommended private client portfolio weighting is 51 per cent in UK equities, 6 per cent in Europe, 5 per cent in Japan, 5 per cent in the Far East, 3 per cent in the US and 1 per cent in emerging markets. The remaining 29 per cent is in cash and index-linked gilts.

The figure for cash is historically high but Cazenove has been cautious for some time, partly due to uncertainties surrounding US interest rates and the expectation that UK inter-

est rates have bottomed out. Cazenove is uncommon in imposing no minimum investment, and there is a huge variation in the size of the private client portfolios. Sums of less than £100,000 are likely to be directed to the unit trust subsidiary but the spokesman says: "We think it is quite inappropriate to have a minimum investment written in stone. A young member of a family is not going to be turned away, if he has only £50,000."

"Regrets. I've had a few."

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*Based on rates in 1945 - source: 1945 - source: 1945. The higher rate was not available from December 1945. Figures are as at 31 December 1994 (figure to 30th June) and are based on total returns, net income reinvested. **Calculations by Foreign & Colonial Management Limited using mid-market prices, net income reinvested, as at 31 December 1994 (figure to 30th June) include interest on 12% dividend reinvestment. Current charges are 0.25% commission, excluding 0.5% Commission saving duty (estimated 50p). Foreign & Colonial Management Limited is a member of the Investment Trusts Association and is a member of the FTSE 100. The value of shares and the income from them will fall as well as rise and investors may not get back the full amount invested. Past performance is no guide to the future.

Lower fixed rates

Fixed-rate investment accounts continue to be withdrawn or reduced and new fixed rates are for shorter terms and at lower rates than of late.

New three-year fixed rates have been launched by Chelsea paying 7.75 per cent yearly or 7.49 per cent monthly. Yorkshire is paying 8.00 per cent yearly or 7.75 per cent monthly, which is currently the best rate on offer although lower than the 8.50 per cent over four years it was offering earlier in the week.

The trend continues through to Guaranteed Income Bonds. While the top five-year rate remains at 7.75 per cent net from Eurolife, the majority of institutions have reduced their long-term rates in recent weeks. However, shorter-term rates of one year have been increased by Liberty Life and AIG Life. The latter has also introduced a two-year bond for the first time, with market leading rates.

The building societies now seem to be concentrating their efforts on the authorised overdraft front. Halifax started the trend in June by announcing a reduction in its authorised overdraft rate from July 1 to an effective annual rate (EAR) of 12.4 per cent.

This was soon leapfrogged by Abbey National which reduced its rate to 9.9 per cent EAR. The Woolwich BS and Alliance & Leicester have since reduced their rates - down to 9.8 per cent EAR and 9.5 per cent EAR respectively. Rates will also be down at the Nationwide from August 1 to 11.5 per cent EAR (or 8.74 per cent if you have a Nationwide mortgage). Britannia will also be reducing its authorised rate to 12.02 per cent EAR, although the 55 per cent month arrangement fee remains.

Christine Bayliss, Investment Editor, Moneyfacts

HIGHEST RATES FOR YOUR MONEY						
Account	Telephone	Notice/term	Minimum deposit	Rate %	Int. paid	
INSTANT ACCESS A/c's						
Birmingham Midshires BS	First Class	0645 720721	Postal	£500	5.00%	Yy
Bradford & Bingley BS	Direct Premium	0345 242248	Postal	£1,000	5.40%	Yy
Stilton BS	3 High Street	0756 700311	Instant	£2,000	6.10%	Yy
Nottingham BS	Post Direct	0902 481444	Postal	£25,000	6.00%	Yy
NOTICE A/c's and BONDS						
Exeter Bank	9 Day Call	0382 500335	9 Day	£1,000	6.00%	My
City & Metropolitan BS	Super 60	081 464 0814	60 Day	£10,000	6.40%	Yy
National Counties BS	90 Day	0372 742211	90 Day	£50,000	7.15%	Yy
Yorkshire BS	Fixed Rate Bond	0800 379838	30.9.97	£5,000	8.00%F	Yy
MONTHLY INTEREST						
Britannia BS	Capital Trust	0538 391741	Postal	£2,000	5.37%	My
Confederation Bank	Monthly Income	0438 744600	30 Day	£2,000	5.85%	My
Scarbrough BS	Scarbrough BS	0800 590576	90 Day	£25,000	6.75%F	My
Bristol & West BS	Fixed Bond	0272 294271	5 Year	£5,000	8.25%F	My
TESSAS (Tax Free)						
Confederation Bank	Fixed Rate	0438 744600	5 Year	£2,000	8.00%F	Yy
Rockley & Rugby BS	Fixed Rate	0435 251254	5 Year	£3,000	7.25%	Yy
Milton Motway BS	Fixed Rate	0694 6937	5 Year	£1	7.20%	Yy
Nottingham BS	Fixed Rate	0802 481444	5 Year	£1	7.15%	Yy
HIGH INTEREST CHEQUE A/c's (Gross)						
Halifax BS	Asset Reserve	0422 335333	Instant	£5,000	4.50%	Yy
Caledonian BS	HCA	031 556 8235	Instant	£1	4.75%	Yy
Chelsea BS	Classic Postal	0800 717515	Instant	£2,500	6.25%	Yy
OFFSHORE ACCOUNTS (Gross)						
Woolwich Quaternary Ltd	International	0481 715735	Instant	£500	5.75%	Yy
Portman Channel Islands	Instant Gold	0481 622747	Instant	£20,000	6.20%	Yy
Confederation Bank (Jury)	Flexible Inv	0534 600000	60 Day	£25,000	6.80%	My
Confederation Bank (Jury)	Investment Cert	0534 600000	5 Year	£10,000	8.25%F	Yy
GUARANTEED INCOME BONDS (Net)						
Liberty Life		081 440 8210	1 Year	£2,000	4.90%F	Yy
AIG Life		081 880 7172	2 Year	£50,000	5.65%F	Yy
Consolidated Life		081 940 8345	3 Year	£2,000	6.50%F	Yy
Consolidated Life		081 940 8345	4 Year	£2,000	7.00%F	Yy
Eurolife		071 464 0105	5 Year	£10,000	7.75%F	Yy
NATIONAL SAVINGS A/c's & BONDS (Gross)						
Investment A/c			1 Month	£20	5.25%G	Yy
Income Bonds			3 Month	£2,000	6.50%F	My
Capital Bonds H			5 Year	£100	7.25%F	OM
First Option Bond			12 Month	£1,000	6.00%F	Yy
Pensioners GIB			5 Year	£500	7.00%F	My
NAT SAVINGS CERTIFICATES (Tax Free)						
41st Issue			5 Year	£100	5.40%F	OM
7th Index Linked			5 Year	£100	3.00%F	OM
Childrens Bond F			5 Year	£25	7.35%F	OM

This table covers major banks and Building Societies only. All rates (except those under heading Guaranteed Income Bonds) are shown Gross. F = Fixed Rate (All other rates are variable) OM = interest paid on maturity. N = Net Rate. P = By Post only. A = Feeder account also required. B = 7 day loss of interest on all withdrawals. G = 5.75 per cent on £500 and above; 5 per cent on £25,000 and above. H = 6.75 per cent on £25,000 and above. I = 6.40 per cent on £20,000 and above.

Source: MONEYFACTS, The Monthly Guide to Investment and Mortgage Rates, Laundry Lane, North Walsham, Norfolk, NR28 0BD. Readers can obtain an introductory copy by phoning 0682 500577.

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FINANCE AND THE FAMILY / SMALL BUSINESS

Questions of life and Aids

An HIV test may still signify high risk in spite of a new ruling, says Debbie Harrison

The tough discrimination policy of UK life offices against people who have been tested for the HIV virus, which is thought to cause Aids, was apparently relaxed this week and should lead to rate cuts for life assurance policies and endowment mortgages.

But insurers may still regard those who have sought the test as high risk. Although the information would not be on the proposal form, it is readily available from applicants' GPs.

The controversial questions on HIV testing, introduced in 1987, asked if the applicant had ever had a test for HIV or sexually transmitted diseases. The Association of British Insurers this week said that insurers should withdraw this question and instead ask if the applicant has ever had a positive test result or undergone treatment for HIV or sexually transmitted diseases. The ABI said it was prepared to change the wording because Aids-related claims since 1987 - estimated at £50m - were much lower than expected.

Men and women who voluntarily sought the HIV test were classed as high risk and either had to pay much higher premiums or in some cases were refused cover. In 1988, when insurers' fears about Aids-related claims reached fever pitch, premiums for young single men rocketed, whether or not they had been tested. In that year the premium for an Allied Dunbar 10-year convertible-term assurance policy with a sum assured of £100,000 for a 30-year-old man rose from £8.16 to £22.16 per month - an increase of 270 per cent.

The same year Scottish Life doubled its monthly premium rates for younger men while Friends Provident rates rose by 180 per cent. The ABI says it expects some insurers to reduce these inflated rates now that the need for large reserves was less critical. Shopping around for the best value is still essential. Allied Dunbar now charges £14.80 for the policy mentioned above and existing policyholders benefit from the reduction, as well as new applicants.

Although you no longer need to

answer the question on the life insurance form asking whether you have had an HIV test, do not expect the company to tell you that unasked. Our straw poll of companies this day after the ABI announcement showed that most were uncertain about what they would do to implement the change.

"Our underwriters will accept a questionnaire from an applicant who has scored through the HIV/Aids questions," said Clerical Medical, but they have not yet decided how salesmen should approach the subject. Abbey Life will be sending a circular to its salesmen and they can meanwhile refer questions back to head office.

Legal & General plans to re-open its Aids working party, and with charming candour said that the speed of its own reaction would depend on whether the competition seemed to be moving faster.

Even when insurers produce new forms which drop the question about Aids-testing, they will still be able to find out whether you have had an Aids-test from your GP's medical records. Ivan Massow, an independent financial adviser who specialises in insurance for gay men, said: "GPs naturally will ask 'tested' patients about their sexual history and number of partners and this will go on file. All this information will be available to the insurers."

Every life insurance proposal form asks for permission to contact the prospective client's GP - a practice condoned by the British Medical Association (BMA) provided the patient has given consent. "People have no choice on the matter. You simply cannot get life insurance if you refuse permission. A handful of GPs do not co-operate with insurers' requests but most willingly oblige. With this right of access, insurers don't need to rely on the proposal form - they can find out anyway," said Massow.

Massow urged those who, for peace of mind, want an HIV test to continue to use sexually transmitted diseases clinics where confidentiality is "protected by criminal law."

Shortly after Prague's "velvet revolution" of November 1989 an enterprising Welsh bride, and her chartered accountant husband, started hawking brightly coloured T-shirts from a rucksack to the first tourists to this baroque jewel of a city.

Four years later, Melissa Woolf runs eight strategically-placed "Melissa" stores along the city's main tourist routes. She still hangs T-shirts from racks on the white-washed walls of her shops. But her main business, worth more than £2m last year, is selling Czech toys and exquisite Bohemian glassware.

Her husband, James, has become one of Prague's biggest property developers. His company, Flow East, refurbished 60 city centre properties last year, turning crowded flats into smart offices and apartments and buying new homes for former tenants in the suburbs. The Woolfs came to Prague in 1990. They were unimpressed by the prospects in recession-hit Britain and intrigued by media coverage of enthusiastic crowds milling in squares of baroque beauty and the possibilities offered in a post-communist state. They found the opportunities the opening-up of a centrally planned economy presented for service industries such as tourism, retailing and property development. Their entrepreneurial flair and willingness to work a seven-day week has allowed both to build successful businesses.

"I now employ 117 people full-time. I visit every shop at least once a day and spend two or three days a week on the road talking to suppliers and placing orders," says Melissa. She buys what she likes, and when she really takes a fancy to a product, such as the wooden puzzle toys on display in her shop on the approach to the historic Charles Bridge, she buys a stake in the company.

James helps with the accounts and the property transactions. But apart from that, the two run their business lives separately. James works from offices in his own refurbished building close to the city centre shared with tenants as varied as Satchi and Satchi, the German Tourist agency, two banks and lots of lawyers.

"I started operating on the principle that incoming foreign companies and local entrepreneurs would want to locate themselves in the heart of this beautiful but long-neglected city," he says.

"After investing heavily up front, however, most foreign companies are cutting back on expensive tripartite employees and training locals. They also expect rents and other expenses to be paid out of local income while the supply of refurbished office space is increasing all the time. So rents have



The entrepreneurial touch: Melissa Woolf started by selling T-shirts from a rucksack. Now she owns eight shops in Prague

Anthony Robinson

Private life in Prague

Anthony Robinson on a couple who found a gold lining in the velvet revolution

Prague, he points out, is as big as a medium-sized British provincial city, such as Ipswich. But Ipswich, and similar towns in western Europe, developed on capitalist lines after the war.

Prague in 1990 was different. Once-elegant shops, apartments and other properties were stolen from their owners, either by the Nazis after 1938, or by the communists after the Prague coup of 1948. Most were roughly converted into overcrowded communal flats, store-houses and the like, or allowed to decay for 50 years.

One of the priorities of the Czech republic's free market-oriented government has been to return as much property as possible to right-

ful owners and sell state property. But the task is complicated. To whom, for example, should a property expropriated from a Jewish owner by the Nazis, then sold and later confiscated by the communists, be returned?

So James decided to buy only fully repossessed properties with a clear owner. Once bought, his next problem is persuading tenants with low fixed rents to leave.

For most life in the city centre means over-crowded, badly-maintained flats. James employs a small staff to comb local newspapers for property in the suburbs. James then buys on behalf of tenants who thus become owners of their own homes - leaving him the empty buildings.

"The property market here is about buying, refurbishing and renting. A resale market has not emerged yet, but it will," he says. Until capital value can be unlocked by resale, cashflow profit is ploughed back into the business. It is a similar story for Melissa, whose company has no debt and is financed from retained earnings.

"We have three Czech construction companies working for us full time and the quality of their output is rising steadily. Many are Yugoslavs or Russians. They work seven days a week, nights as well if required," James says. "It takes only six to seven weeks to convert a flat in Prague which would take three to four months in London." James looks after the legal and financial side of the business. His

partner, Stephen Davis, oversees the construction. Problems include finding good, loyal staff - not easy with unemployment in Prague only 2.5 per cent - and the bureaucracy. Companies employing more than 25 workers are subject to wage control and there are fines for slow or non-payment of VAT at 23 per cent.

Finance is less of a problem, thanks to the establishment of foreign banks. "Komerční Banka, the biggest Czech bank, is only prepared to lend for a maximum of four years at 14.5 per cent, or seven years by private treaty. But why bother when you can get 10-year loans from German and Austrian banks with less hassle? As for UK banks, they have missed out on this market completely," said James.

Ten years ago, my accountant arranged two policies for me, one an endowment, the other whole of life. Now the endowment has matured, he proposes to charge me 0.5 per cent on the proceeds for signing the maturity form.

His normal charge would be 1.5 per cent but, in view of the amount involved, he is willing to take the lower charge. This would give him £200 simply for signing the maturity form and a letter written by me to the insurers. But I knew nothing of this charge until 10 years after taking out the policies. Is this normal practice?

I have a further endowment policy written in trust which matures in four years. This involves one (different) trustee to whom I wrote some time ago but have received no reply. If he cannot be traced, how do I replace him?

Whether your accountant is entitled to charge a percentage on the policies' proceeds depends on the agreement between you and him when the policies were taken out.

If you are unhappy, the professional conduct department at the Institute of Chartered Accountants might be able to assist you. The address is: Gloucester House, 399 Silbury Boulevard, Milton Keynes, Bucks MK9 2HL.

You can replace trustees on the present policies by writing to the companies concerned in order to verify who has the power to appoint trustees. It might be possible that, as settlor, you have this power; if so, the companies concerned could supply you with forms in order to make the necessary change. (Answer by Murray Johnstone Personal Asset Management).

Worthless certificates

I own 200 shares in Norton Group plc, which crashed last year with debts of £7.5m. I understand that a Canadian entrepreneur has bought the old Shenstone factory at a knock-down price. Is my share certificate worth anything or should I throw it away?

Unless it is particularly artistic, framing would merely be throwing good money after bad. (Murray Johnstone).

I hold shares in Ferranti which are obviously a total write-off. As I am unable to dispose of these shares in the market:

1. By what procedure am I able to realise the losses for

Accountant asks £200 to sign letter

CGT purposes?

2. Could this be done on the last day of the present tax year to maximise indexation benefit?

To qualify for maximum indexation and to minimise the risk of forfeiting all indexation (by failing to get the claim into the inspector's hands by the end of the tax year), you should, on Saturday, April 1 1995, write to your tax office along the following lines: "In accordance with section 24(2) of the Taxation of Chargeable Gains Act 1992, I claim that the value of my holding of [state number] shares in Ferranti International plc has become negligible, namely . . . and that I should therefore be treated as if I had sold that holding for that sum today, April 1 1995, and had immediately reacquired it for that same sum, in circumstances falling outside section 105(1) of the Act."

If by chance you reach the £10,000 limit for indexation losses (between November 30 1983 and April 5 1995, inclusive) as a result of actual disposals etc, then the timing of your negligible-value claim will not matter.

Some years ago I bought some shares in a company called Equity & General which went bankrupt and I have found out that the Inland Revenue declared shares in this company to be of negligible value from 14 September 1990.

I have not previously entered the loss on my tax returns but now need to do so. How do I do this? I would like to use part of the loss in the tax year 93/94 and part in the tax year 94/95. Is this possible and to what date should I index the loss in each case?

The revised version of extrastatutory concession D28 (which permits retrospective negligible-value claims) was published at the end of May. It is too long to quote, so you should ask your tax office for a copy; if you have any difficulty, write to the Inland Revenue Public Enquiry Office, Somerset House, Strand, London, WC2R 1LB.

Q&A

BRIEF CASE

No legal responsibility can be accepted by the Financial Times for the accuracy of the content of any article. All material will be accepted for publication as soon as possible.

The new version of concession D28 appears to have been written in a hurry so we shall not be surprised if you find it difficult to understand. Please come back to us after reading it, with the full background facts, figures and dates (including a note of what elections you have made - rebasing, pooling etc.). Without precise data, we cannot say whether it is possible for you to make a negligible-value claim for only part of the shareholding: there is no universal answer, but the most common one is NO.

If the company no longer exists (if it has been struck off, for example), you will automatically be deemed to have disposed of your shareholding on the day on which it ceased to exist, by virtue of section 24(1) of the Taxation of Chargeable Gains Act 1992.

Granny's houses

My daughters have jointly inherited two properties from their grandmother. These are valued at £25,000 and £25,000, one with sitting tenants, and one vacant and was sold for approximately £50,000. How would CGT be calculated? Would it make a difference if my daughters lived in the house before selling?

Your daughters are deemed, for CGT purposes, to have acquired the houses at their grandmother's death at pro-rata value, broadly speaking. The solicitor who acted for the executors will be able to give them the precise figures for CGT purposes (it is rather surprising that he or she did not

give them the necessary information as a matter of course).

By living in the house in question, and giving judiciously timed main-residence notices (first in favour of that house, and then in favour of their present residence, probably with appropriate periods of retrospective), each of them could reduce her prospective CGT bill on the sale of the house, without producing an unacceptable CGT bill upon any sale of her present residence. It should be possible (as the law stands at present) for the prospective CGT bill on the other inherited property to be mitigated in a similar way.

The rules are complex and arbitrary. Your daughters should seek guidance from the solicitor who acts for them in the house sale. As a first step, they can ask their tax offices for the free pamphlets CGT4 (Capital gains tax: owner-occupied houses) and CGT14 (Capital gains tax: an introduction).

Second home

I intend to buy a second home in the south of England which will be solely for my own use as a holiday home. In five years I intend to retire, sell my present home and move into the second home as my main and only residence.

If house prices rise over the next five years, would a liability for capital gains tax arise on the second home if it were sold after it had become my main residence?

If there are tax implications, should I be making any "main residence" declarations to the Inland Revenue to minimise or avoid the liability?

The solicitor who acts for you in the purchase - will be able to guide you on the question of the timing of main-residence notices (under section 222(5)(a) of the Taxation of Chargeable Gains Act 1992). In the meantime, to get an idea of the arbitrary rules laid down by parliament, ask your tax office for the free leaflet CGT4.

Your solicitor's advice is likely to be broadly along the following lines:

1. A main-residence notice in favour of your present home should be lodged fairly soon after completion of the purchase of your second home (and certainly before the second home is sold).

2. A notice of variation, in favour of your second home, should be lodged (retrospectively) no later than the day on which you are sure that the purchaser of your original home is not going to default.

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FINANCIAL TIMES

HOW TO SPEND IT

The coolest ways to fight the summer heat

Lucia van der Post becomes a fan fan, finds that Y-fronts have shrunk and recommends mail-order make-up and beads

Good news for chaps: the new improved Y-front by Jockey is about to hit the shops. Now you might think that there was little anyone could do with Y-fronts, that they were one of those all-time classics that should not be tampered with.

But I have to tell you, you would be wrong.

The boys at Lyle & Scott are very excited by their recent discovery that there have been serious flaws in all previous thinking about sizing – no one, it seems, had ever bothered to measure this rather intimate area correctly.

As a result Y-fronts, in common with all other underpants, were simply enlarged proportionally all round as they moved from little waists of 26 to gigantic ones of 54. After getting wives, girlfriends and even boyfriends to take a host of measurements, they discovered that while tums and bottoms varied hugely in size other measurements (most importantly the one from the navel to the top of the pubic bone) varied by an infinitesimal amount.

As a result, the portion of the underpants that covers waist and bottoms is now sized appropriately while other measurements, from the middle down to the pubic bone, remain more or less static. This, it seems – and here I have to rely on the reports of the panel – results in much greater comfort and makes sure the double gusset is in perfect alignment.

The new Y-front incorporates all the classic features of the



Size matters: Y-fronts have been remeasured and resized for a better fit

old – in particular the waistband (as integral to the design as the bumper is to the BMW). Made of woven elastic which has great flexibility (did you know your waist can expand by up to 5in when you sit down?) it is the key to the Jockey design.

Whereas most men's underpants are sized simply as S, M, L and XL, the Jockey Y-front is sized in inches all the way

from 32in to 58in (Marks and Spencer's XL Y-fronts go up to 48 inches).

It is still made from fine ribbed 100 per cent cotton, just as it was on that momentous day in 1935 when Marshall Fields of Chicago filled a window with the new Y-front underpants and sold out by mid-day. At £4.25 for a classic brief (three for £10.99) it still represents value for money.

I am one of the last of those Luddites who prefer fresh air and open windows to air-conditioning. To me, not the least of the charms of third world countries is their tendency to have hotels where you can still open windows by hand and can figure out how the taps turn on without the aid of an instruction manual.

But, thanks to the recent heat wave in the south of England, even I have begun to think that maybe a little cooling air around the house might not come amiss. In Britain's climate a complete air-conditioning system, with attendant costs and disruption to the household, would scarcely seem worthwhile. But for the sort of sultry nights and stifling days that we have been having recently, a portable fan can make a lot of difference for a comparatively small outlay.

You could spend as little as £16.99 for a small clip-on plastic fan by Pifco (clip it to desk or bedside table) or as much as £138.75 for the largest floor-standing Cinni. Cinni is the label most approved of by the style police, a classic of the world of whirling air, trailing overtones of ethnic chic, made as it is in India. It is, however, quite noisy, although I find the steady whirr quite soothing, romantic almost, reminding me as it does of tropical nights and sultry B-movies.

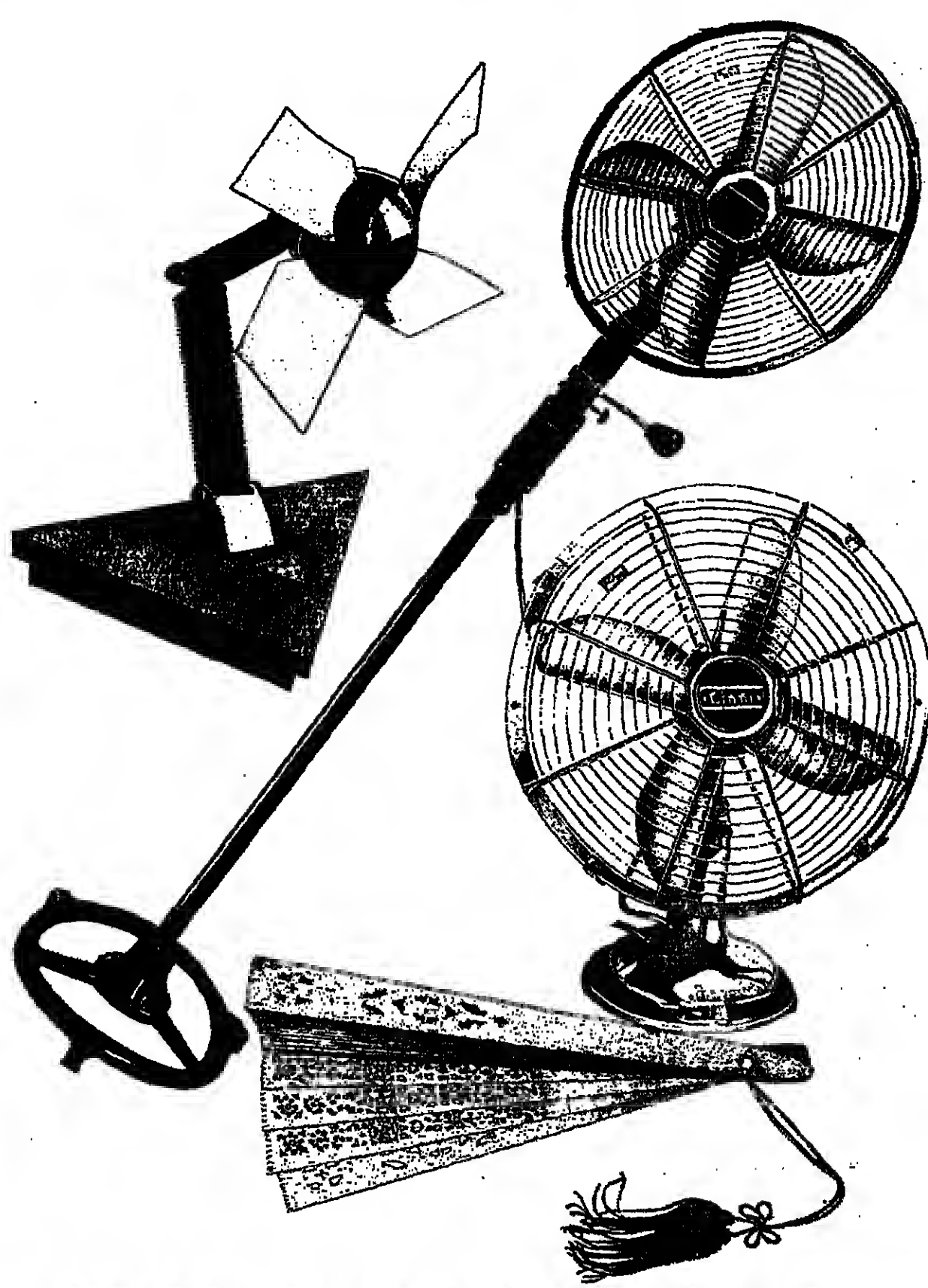
Made of metal, either shiny chrome or painted matt black, there are table-top models (£82.50) and the ft high pedestal version (£185) which could cool a good-sized room. Stocks of Cinni fans are running low in many of their usual outlets (Harrods, John Lewis) but the Freud Shop, 198 Shaftesbury Avenue, London WC2 (tel: 071-831 1071) has a good supply.

Xpelair offers a rather charmingly straightforward fan of the sort that is found in offices and hospitals up and down the UK. It is definitely untrendy and no-nonsense to look at and does the job of moving the air around very efficiently. The noise level varies but the two and three-speed models are quiet enough for bedrooms if kept at the lowest speed. Higher speeds are noisy but move more air. Sizes range from small table-top models just 8in in diameter to a pedestal version 16in in diameter and 60in high.

The funkiest fan, though, has to be the one Viking Direct (suppliers of office equipment) is giving away free if – here's the catch – you spend £150 on one of its computers first. It looks as though it has been designed by Ettore Sottsass of Memphis fame, has the visual charm of a small sculpture and runs on batteries – you simply press a button and it produces a pleasing whirring and cooling of the air. It is small enough (about 16ins high) to be very portable. (Tel: 0800-424444).

Those heading for enclosed spaces such as operas, theatres or tented marquees (last Sunday the temperature in the Cartier tent at Smiths' Lawn was reckoned to have risen to 110°F and it certainly felt like it) might like to have their own little folding fan.

The Spotted Duck, 115 Fulham Road, London SW6, has a beautifully carved sandalwood version which smells exotically



Make summer a breeze: Viking Direct fan, portable fan (top left) is free if – and here is the catch – you buy £150 worth of office equipment from Viking Direct first. The 4ft-high free-standing model by Cinni (top right) costs £185, the small table-top Cinni fan (centre right) is £82.50 and the hand-held sandalwood fan (bottom) is £25.00 from The Spotted Duck, 115 Fulham Road, London SW6

of spice as you wave it about. It costs £25.00.

Fans mounted on the ceiling can be less intrusive and they are usually less noisy. The Xpelair version, called Whispair, is probably the most sophisticated and it does the job of circulating air very well. Sizes range from 36in diameter to 60in, with a drop down from the ceiling of 10in to 30in. All are the same price, £78.99 and the essential control switch is £18.77. Bemco is the wholesaler and it will be happy to give details of local stockists (tel: 081-674 0404).

Those hankering for a hit Somerset Maugham-style colonial romance might look at colonial-style ceiling fans with brass bodies and rattan blades. These cost £99.50 from Christopher Wray Lighting of 600 Kings Road, London SW6.

For serious air cooling, the most popular portable domestic device is the Holiday One refrigerated air conditioner unit made by Carrier. It normally costs £1,135 (currently £999 in Selfridge's sale) and will cool a fair-sized room.

Most mechanical oscillating fans operate by moving existing air (car exhaust, fumes and the like) and an electric filter that takes out particulate pollution (unburned hydrocarbons, soot, lead oxide from traffic exhaust). The ioniser recharges the air and revitalises it, putting back in the negative ions (which Valerie Taplin describes as being like "vitamins of the air") which polluted city air is low in.

These air purifiers do not cool the air but make a difference to those with breathing problems. Valerie Taplin offers an emergency service for those in distress – she has delivered humidifiers in the middle of the night to a tracheotomy patient, an opera singer and many asthmatics.

Her air purifiers sell at prices ranging from £50 for the smallest to £500, depending almost wholly upon size and capacity. These are basically boxes which are plugged into a socket and suck in dirty air at the back and expel clean air through the front, ionising it on the way. Most have two filters – a carbon filter which takes out gaseous pollution (car exhaust, fumes and the like) and an electric filter that takes out particulate pollution (unburned hydrocarbons, soot, lead oxide from traffic exhaust). The ioniser recharges the air and revitalises it, putting back in the negative ions (which Valerie Taplin describes as being like "vitamins of the air") which polluted city air is low in.

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Come the hot weather, though, it is inevitable that the shops are out of fans – just as you can seldom buy a bikini when the summer is at its height ("Modom, they were all sold out in January"), or a hay fever remedy in the hay fever season ("everybody has been asking for it" was my local chemist's excuse for being out of Beconase). My advice is this – never mind if your local high street is looking like a frozen tundra, buy a good fan if you see it and next time the weather is sweltering you will be smiling.

The second time I went to New York (the first time I was too green) I headed straight over to the Bowery and dived into Kiehl's. At the time it was one of the world's best-kept beauty secrets, a cult shop for models, make-up artists, actresses, fashion designers and everybody else in the know.

There I stocked up on Ultra Facial Moisturiser, Light Nourishing Eye cream, Shine 'N' Lite Groom (the explanation for many a New York model's shiny tresses) and goodness knows what else. Ever since, friends going to and fro are given orders and I stock up whenever I am there myself.

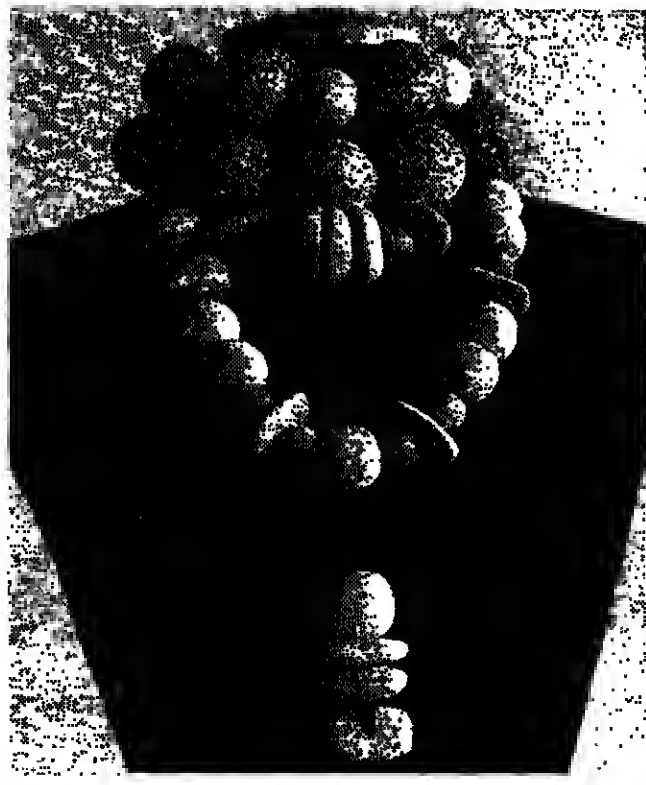
Now, four shops in London will be selling selections from Kiehl. Of course it will not be quite the same as visiting that strange old apothecary in the Bowery, dipping into those lotions and potions in their plain jars and bottles.

The shops that will stock them are: Harrods of Knightsbridge, London SW1X 7XL; Smile (Hair Salon), 434 King's Road, London SW10 0LJ; Fourth Floor (Hair Salon), Northampton Street, London WC1N 2JG and Matches, 13 Hill Street, Richmond, Surrey, TW9 1FX.

Kiehl's in Manhattan (109 Third Avenue, New York) also operates a worldwide mail order service and a hotline: 212-677-3171.

Making my own necklaces has not been the kind of occupational therapy that I have ever aspired to. But Janet Coles sells beads of such beauty and diversity that she could tempt me. Her mail order brochure is beautifully produced – the beads presented in an ordered fashion with plenty of ideas for creating necklaces, jewellery and bracelets, writes Lucia van der Post.

You do not need to be a Flintstones fan to appreciate the latest collection of all ancient stones, prehistoric-style pendants and neolithic-style necklaces. Necklaces shown here can all be made with materials bought from Janet Coles – either by mail order (Perdisswell Cottage, Bilford Road, Worcester, WR3 8QA, 0905-755888) or from her shop, Janet Coles Bead Emporium, 128 Notting Hill Gate, London W11. Pendants in kit form are £5, made-up about £7. Chunky necklaces cost between £9.95 and £21 in kits, and £13.50-£25 made-up.



There are some products which have relevance and value regardless of time and fashion. Birkenstock shoes are such a product.

Whether you are three years old and not very steady on your feet, or 80 and feeling frail, Birkenstock will make sure you are happily and comfortably shod. In between these two extremes, Vogueettes rush around town wearing Birkenstocks and the most laid-back, comfortable-looking guest at a

Shoes that trod the hippy trail

Birkenstocks are both fashionable and comfortable, writes Lucia van der Post

London summer drinks party recently was a chic visitor from Florida's Key West sporting a soft, linen suit, collarless linen shirt and... yes... Birkenstocks.

Birkenstocks were the original hippy shoe bought by free-

loving Woodstock fans, earnest rambblers and vegans who delighted in the plastic versions. Now they have suddenly become transformed from merely practical footwear into cult status.

In the summer of 1991, The Face magazine showed the then unknown Kate Moss wearing them in photographs by Corinne Day and made all the style cognoscenti take notice.

Hotshot designers began to take the basic models and customise them for their catwalk shows – Perry Ellis added pink satin and diamante buckles while Kohji Tatsumo showed them in glittery silver.

Today much of their charm lies in their universality – they are that elusive product, both widely accessible and infinitely chic.

By the footwear standards of today they are modestly priced ranging from £19.95 to £89.95.

Their fans are legion. Harrison Ford, Whoopi Goldberg, Joan Bakewell, Koo Stark, Victoria Wood, Julie Walters and Maggie Smith all saunter around in them.

For those who have never heard the name, Birkenstock is a German shoe company dating back to the 18th century. It rose to modest fame in the



Pregnant and comfortable in brown leather Milanos (£54.95).

1960s when Karl Birkenstock combined the arched insoles with a footbed and straps, creating the now familiar sandal.

This sole (or "footbed") is the shoe's chief distinguishing characteristic and the source of its particular comfort. It is

made from cork (recyclable, of course) and moulds and supports the foot.

Those who are new to Birkenstocks say it can take a while to become accustomed to the toe grips and the arch support but, once hooked, you become a life-long wearer.

In winter Birkenstock aficionados swap the open sandal for the closed-in shoe styles with names such as Boston or London.

There are still ranges for vegans, made with no animal products, but the model most favoured by the chic set is the Arizona, in leather and suede at £49.95. This chimes perfectly with the 1990s feel for natural linens and eco-friendly products.

The Natural Shoe Store, which sells them in the UK, prefers customers to come in and be properly fitted but, as there are just three branches (21 Neal Street, London WC2; 326 Kings Road, London SW3; and 22, Princes Square, Buchanan Street, Glasgow) it recognises that not everyone can easily reach them, so it has just launched a mail order catalogue.

This catalogue lists all the styles, prices and materials and includes charts to enable you to trace your foot shape precisely.

Do not be worried that at first sight the shoe or sandal seems alarmingly large – this is part of the support system. Try them on a soft carpet before rejecting them. Ring 0800-132-194 for a free catalogue.



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PERSPECTIVES / FOOD AND DRINK

Highland regiments hear the last post

The Queen's Own Highlanders fear peace-time defeat. Christian Tyler visits the regiment on the eve of amalgamation with the Gordons

Silver goblets are carefully set in front of each officer's place along the polished mess-table. But closer inspection shows their design is not uniform. The first is embossed with a stag's head, the next with a thistle and crown - and so on, alternately, around the table.

Like the clash of green and red tartan in the paintings on the walls, the goblets proclaim the amalgamation 33 years ago of two clan regiments, the Seaforth Highlanders and Queen's Own Cameron Highlanders.

Today the product of that merger stands on the brink of another merger. The Queen's Own Highlanders (Seaforth and Camerons) will acquire more goblets, more tartan, more customs, when they are united this September with the Gordon Highlanders from the Grampian region to the east, foreigners from Aberdeen with strange accents and - so it is rumoured - Danish blood.

More than 30 British regiments are being reduced or merged in the present round of cuts, to predictable cries of pain. Some soldiers see in this the beginning of the end of a regimental system which is reputedly the envy of the world.

To the men of the Queen's Own Highlanders a stroke of the pen in Whitehall feels like a bayonet in the guts, for Highland soldiers enjoy more than a shared history and regimental loyalty: they are bound, in a way English regiments no longer are, by ties of territory, clan and family.

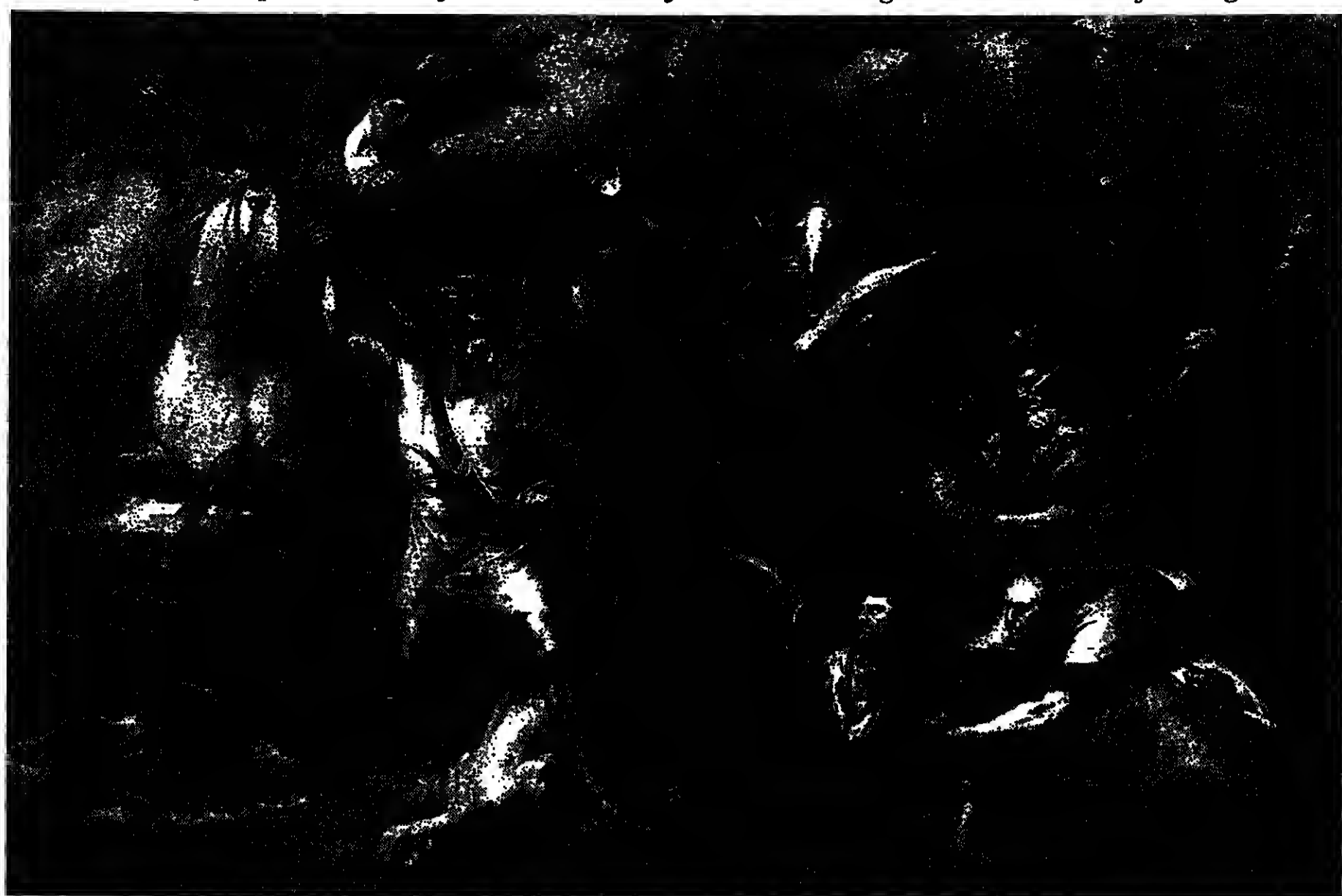
While the rest of the British army struggles towards the classless society, theirs remains in some respects a feudal world. The officers - some still lairds in uniform - are mostly the well-spoken products of English public schools. As one young bachelor officer quipped when asked where he came from: "The Highlands of Chelsea." They command men they call "jocks" who in civilian life could easily be their estate workers or gamekeepers.

Highland regiments enjoy a cachet unlike other infantry units. There are few sights more stirring than a Highland regiment on ceremonial parade: a moustachioed pipe major at the head, leather bonnets nodding, kilts swinging, kettle-drums rattling and bagpipes wailing. A place of theatre, maybe, but more than that - an expression of collective pride powerful enough to silence the most sceptical voice.

That pride was poignantly displayed recently when old soldiers of the Seaforth Highlanders commemorated the 200th anniversary of the raising of the 78th Highlanders (Ross-shire Buffs), their regimental ancestor, by Francis Humberston Mackenzie, Lord Seaforth.

In typically brilliant sunshine, with the tops of Ben Wyvis uncovered behind them, they marched in column of three behind a pipe band of their own veterans through the streets of Dingwall on the Cromarty Firth. On the same day, at the southern end of the Great Glen, another band of old soldiers was parading through Fort William in memory of Alan Cameron of Erracht, founder of the 79th Cameron Volunteers.

Poignant, too, was the moment in the chapel of Fort George, the 18th century garrison which juts into the



The power of tradition: Colin Fitzgerald, ancestor of the Mackenzies of Seaforth, rescues King Alexander III of Scotland from the fury of a stag in this painting by Benjamin West.

The National Gallery of Scotland

Moray Firth near Inverness, when the regimental chaplain, the Rev James Harkness, quoted from Isaiah: "Consider the rock from which you are hewn, the quarry from which you are dug." Watched by their colonel-in-chief, Prince Philip, the two clans combined for Beating the Retreat at the Cameron Barracks in Inverness, marching off to the air of the Mackenzie chiefs, Cùbor Feidh, while the setting sun glared from the red sandstone of the barracks. It was spirited but solemn: a celebration, and a funeral march.

A campaign to prevent the merger was launched by old soldiers on both sides, but apparently too late to have effect. The "old and bold", as the Queen's Own Highlanders call their veterans, say the merger is unfair on two counts: that the QOH has barely digested its last amalgamation and that it is being penalised for the Gordons' recruitment difficulties. They hoped - still hope - that a big UN peace-keeping force will be called for in Bosnia, further stretching an already overstretched British army and thus saving their battalion.

There is resentment about those regiments which, because of political influence or logistical need, will

come through diminished but undiluted. "The politicians seem more worried about the Highlanders of Kathmandu, the Gurkhas, than us," said Col Andrew Duncan, a former commander of the regiment. "And why should there be three battalions of paratroopers when you cannot safely parachute into battle ever again?"

Sgt John Ratray, a master tailor, complained: "We don't have enough people in Parliament. There's quite

kills and customs," he said briskly, "but people."

His problem is to maintain morale through a reduction of the 565-strong battalion which will hurt the careers of his officers and NCOs and threaten unemployment for his men. "If I was a retired officer it would be extremely upsetting," he added. "I am upset, but I haven't got time to be upset. Anyway, it would need a miracle to prevent it now."

raised by their clan chiefs as much as anything to provide employment. And they are used to dying. The entire adult male population of Ullapool, the fishing port in the north-west Highlands, was killed in the two world wars, according to Major-General John Hopkinson, another former Seaforth and now Colonel of the Regiment.

"The jocks are fine soldiers, but a nightmare in camp," said Major Douglas Hay of 'D' company, glow-

ing with pride after watching his men win the battalion soccer tournament in a cup final played at high speed and with considerable ferocity. "Everyone in the army says his battalion's the best. The only difference is that in the Queen's Own Highlanders we know we are the best!"

Overt class distinction seems to bother no-one in the battalion. "Jocks expect officers to be different," said a lance-corporal. In spite of it - no, because of it - officers and men alike boast of the familiarity permitted. A sergeant explained that the relationship is less stiff-necked than elsewhere in the army. Banter was tolerated short of insubordination and jocks knew where the line was drawn. There is one club for the wives of all ranks.

"Our sarnies (sergeants) mess is the oldest in the army. They are all real gentlemen," said Mourey. "Class is not important in this mess either, it's performance." These days, he said, respect had to be earned. "There is no room any longer for the chap who can hide behind a name or what he thinks he is."

Family connections and family feeling are the glue that binds these soldiers together. Many have followed brothers, fathers, grandfathers into the regiment. "It's all to do with family," said an NCO storeman from Fort William. In one company there had been no fewer than six brothers serving together.

Major Mike Wimberley, the second in command, was born in London and grew up in Sussex. But he has a Cameronian tartan plaid spread over his desk: he is the fifth generation to join the regiment. For him, it is an extension of family life. "The hardest thing to face," he said, "is that someone wants to do away with us, that someone can do away

with the living thing that is a regiment - that something created which works extremely well that can just be wiped out at the drop of a pen. History doesn't count with government. It doesn't matter a damn to them how long we have been around. What matters is their ability to recruit and retain."

The last serving Seaforth in the QOH is the quartermaster, Major Murdo MacLeod from the Isle of Lewis. He is old enough to remember babysitting a little girl now married to one of the sergeants. "When you leave a civilian company," he said, "that's the end. But you are never, ever, retired from the Queen's Own Highlanders."

The last merger was made easier to digest by a posting to Singapore and action in Brunei. Few doubt that the impending merger with the Gordons can be made to work just as well, in spite of mutterings that their officers are not of the same calibre and jokes about their tartan having a yellow streak.

Arguments about who will wear what, and when, in the new battalion have largely been resolved. General Sir Peter Graham, colonel of the Gordons, was rumoured to have threatened to fall on his sword if the Gordons lost the kilts. So it will be Gordon kilts and Mackenzie trews for the soldiers, and Cameron kilts and Mackenzie trews for the pipers and drummers. In return the Gordons will give up their cap badge - the everyday emblem of the modern soldier - of a stag's head and motto "Bydand" ("abiding") for the QOH stag's head with thistle and crown and Gaelic motto "Cuidich'n Rìgh" (Help the King).

Thus traditions will fuse and a new sustaining myth will have to be invented. "We will have no trouble creating a history for the Highlanders," said a QOH officer. "But it has taken 20 years to get our identity accepted locally. It will take another 30 years for the new one."

But for how long can the regimental system survive such chopping and dilution? Field-Marshal Lord Carver argued 25 years ago that infantry regiments should be merged into a single corps. He has few supporters in the QOH. "It is important to go into battle with friends, not acquaintances - to see the blue hackle," said Capt Stuart Tootal, who saw action in the Gulf war where three men of the battalion were killed in the notorious "friendly fire" incident. "At the end of the day one of the biggest motivations is not to let your mates down, and I firmly believe in that."

Major Wimberley said: "We have asked them if necessary to lay down their lives for the Queen's Own Highlanders. You cannot easily ask them to switch off and say Now I am a Highlander."

But there are some who feel the campaign against amalgamation is a case of old buffers resisting the inevitable. They say the tradition of local regiments, formalised only 100 years ago, is wasteful in peacetime and inefficient in wartime, however good it may be for esprit de corps. With many regiments, like the QOH, down to a single battalion the rationale is still further weakened. "Whereas the Highland regiments into one regiment," suggested a QOH dissenter. "You could say they should have gone even further. No doubt they wanted to, but did not dare."

'The hardest thing to face is that someone wants to do away with us... that the regiment can just be wiped out at the drop of a pen'

a lot of feeling that the Black Watch and Argylls should have been disbanded - they're no Highlanders." The Black Watch, he explained, persecuted the Jacobites in the early 18th century and were known as "the English police". The Massacre of Glencoe has not been forgotten. "The regiment's commanding officer, and future commander of 'The Highlanders' is Lt Col Hugh Monro whose brother was CO before him and whose father is Sir Hector Monro, a minister in the Scottish Office. "My principal concern is not

Highland soldiers regard themselves as special. Their martial tradition is one reason. They make tough infantrymen, said Col Duncan, a legacy of the era when they were required "only to walk bravely forward, shoot their muskets, and die when hit." Yet they do not foster a cult of toughness like the self-proclaimed élite units.

They are violent when roused, boisterous when drunk and need a lot of disciplining. They are used to military service: regiments like the Seaforths and Camerons were

ing with pride after watching his men win the battalion soccer tournament in a cup final played at high speed and with considerable ferocity. "Everyone in the army says his battalion's the best. The only difference is that in the Queen's Own Highlanders we know we are the best!"

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The lure of the stove fades fast in hot weather. Good eating still appeals - providing the dishes are light and fresh, not stodgy or creamy - but the less cooking involved the better. This is a time when good shop-ping comes to the fore and classy offerings from the delicatessen seem worth their weight in gold.

As good fortune would have it, the hot spell in southern England has coincided with the arrival in the UK of some fine foods from Italy.

Masseria is a small estate in Apulia, the heel of Italy. Its artisanal products are strictly seasonal and quantities are limited. Own-grown vegetables ripened in the southern sun are a speciality. Harvested in small batches when at their peak, they are cooked and preserved within hours, and this freshness is evident in the eating.

Unusual offerings include a vibrant green pasta sauce, made from the cooked and pureed tips of a sort of wild broccoli, *cime di rapa*. Even more noteworthy is a range of antipasti vegetables preserved in olive oil.

Of these the grilled wedges of artichoke are truly outstanding: the firm sweet texture of the fresh vegetable is retained and the delicate artichoke flavour shines through.

They are quite unlike most other preserved artichokes, which tend to be soft, verging on soggy and mildly sozzled with an overdose of vinegar. These Masseria artichokes are in their prime now, having been picked, grilled and bottled just recently. As the months go by they will soften a little. But supplies of this year's crop will be snapped up and eaten long before that happens.

Any day now Masseria grill-

Cookery/Philippa Davenport

Feasts from the deli



led baby onions will come on stream. By September sundried red peppers will be harvested, bottled and ready for sale, as will *lampascini* (delicately flavoured hyacinth-like wild bulbs). Treats to look forward to.

September will also see the arrival in Britain of the new season's *peperoni fritti*, an exquisite offering from Roi di Liguria. These stuffed peppers, which I sampled at last year's harvest, are tiny round medium-hot peppers, each carefully stuffed with whole anchovy fillets and capers, packed in Roi's delicate extra virgin olive oil.

Like Masseria's grilled artichokes, Roi's stuffed peppers are a star product to which I could easily become addicted. Try either or both of them with a few slices of good ham, a hard-boiled egg or two and a smattering of fresh chopped herbs. Perfect for lunch in the garden.

Sardinia is uncharted gastronomic territory so far as most Britons are concerned. But not for long, as some of the best of the island's produce is just beginning to trickle into the British marketplace.

San Giuliano, near Alghero, northern Sardinia, produces a commendable selection of vegetable antipasti preserved in olive oil, that includes wild cardoons, autumn mushrooms (a member of the oyster mushroom family indigenous to Sar-

dinia), and sun-dried tomatoes stuffed with anchovies, herbs and spices.

There is also a San Giuliano extra virgin olive oil which, at less than £5 per litre, strikes me as a very agreeable, very affordable everyday olive oil; while from Sartos and San Raimondo in middle and southern Sardinia respectively come prize-winning fruttato olive oils.

Casari's canned vegetables, from the Cagliari region in the south, include excellent pulses: canned lentils, borlotti and, best of all, large meaty white beans known as *fagioli di spagna*. The canned plum tomato products are the best I have come across.

The Sardinians, like the British, are notably sweet-toothed. Some of their biscuits and sweetmeats are Arab influenced. High fruit content jams include a fine bilberry. Intensely flavoured hazels,

almonds, walnuts and sultanias stored in honey are especially delicious. This is an ancient preservation method almost forgotten elsewhere.

Long-keeping foods are a hallmark of Sardinian cuisine. Traditional island breads include *pane carasau*, colloquially known as *corta di muscia*, or music paper. Cracking, parchment-thin, it will keep for up to a year after baking.

Even longer lasting is *botarga*, the salted and dried roe of mullet or blue fin tuna. This fishy treat is Sardinia's greatest delicacy and is so intensely savoury that only minute quantities are needed to kick-start the appetite. Just as well, for it is a luxury item in the caviar and truffle price bracket, food for high days and holidays.

One classic (and effortless) way to serve *botarga* is shaved water thin or grated to a powder, sprinkled over a generous handful of rocket or broken pieces of *corta di muscia* drizzled with olive oil. (The poor man's version substitutes sea salt for *botarga*.)

This is a splendid dish for reviving jaded appetites on summer days, when I might preface it with a thirst-quenching soup, well chilled and agreeably thin - made perhaps with Sardinian canned tomatoes, sieved to a purée, generously diluted with light stock or iced water, enriched with a splash of olive oil and aromatised with crushed fennel seeds and a sliver of garlic.

For further information about, and stocks of, products by Masseria and Roi, contact Danmar International. Tel: 081-644 1494. Fax: 081-751 1436.

For further information about, and stocks of, Sardinian foods and wines contact EuroChoice. Tel and fax: 081-633 9422.

Whisky/Giles MacDonogh

Glenturret's variety

On the Scottish mainland few whisky distilleries are good to look at. The need to increase capacity during the boom years in the 1960s and 1970s transformed most of the primitive industrial sites into complexes of buildings looking more like factories.

The pagoda roofs on the maltings were levelled when the decision was made to bring in malt from elsewhere. In other cases, old warehouses were cleared when companies elected to age their stocks centrally, rather than at the distillery itself.

If you do not want to take my word for it, go to the Glenturret; you will soon see that the best view is from the inside, looking out.

Yet there are a few notable exceptions. One of these is Strathisla in Keith. Then there are the two smallest distilleries in the Highlands, in many ways two working museums: Edradour, in Pithchrilly, and Glenturret, just outside Crieff.

Glenturret lays some claim to being the oldest distillery in Scotland. The River Turret was particularly favoured by illicit distillers in the 18th century and it is believed that whisky was being made on the site of the present buildings as early as 1717.

The shell of the distillery dates back to 1775, half a century before the relaxation of the duties on distilled spirits which created so many of the larger operations on the mainland.

Glenturret continued to pro-

duce whisky until the 1920s. In 1927 the stills fell silent and remained so for 30 years. During this time the distillery was stripped of its equipment.

Then, in 1957, the buildings were acquired by a Glasgow whisky broker called James Fairlie.

Fairlie was bored by his work, and was looking for a more interesting line of business. He did not have a lot of money but he managed to get the place up and running by signing a number of hire-purchase deals. In that way he

they are able to pop into the distillery and watch whisky production in miniature.

The mash tun, for example, is so small there that it is stirred manually by a man with a paddle. The wash still, the most important of the two stills so far as quality is concerned, was replaced by a rather more sophisticated machine in the mid-1970s, but the old spirit still continues to be used.

Outside in the yard lie the casks in which the whisky spends its long years of maturation.

For a small fee, tourists may watch whisky production in miniature

was able to acquire a functioning Porteous grist mill and a couple of secondhand stills. Fairlie kept Glenturret going until 1981 by selling his whisky to big companies for use in blended whisky. In that year Colantrean bought him out.

Ten years later, Glenturret reverted to Scottish ownership when Colantrean's masters, Remy-Martin, did a share deal with the Highland Group. James Fairlie stayed on until 1990. Since then his son, Peter, has been in charge.

Glenturret still fills casks for other companies, but its strong point is how much it uses its own resources to good effect.

Its Highland position, just below the Turret Loch, attracts around 200,000 tourists every year. For a small fee

with hints of honeycomb and preserved fruits. This also comes in a high-strength version - 50 per cent alcohol by volume - with fruity, heathery notes.

Then came a series of weird bottlings. A "copperlustre" flagon revealed a 21-year-old whisky emulating of varnish. The varnish aroma was probably caused by sherry, but it was far from being my favourite in the range. Another 21-year-old came in an expensive-looking cut-glass decanter. Again, this had matured in sherry wood. A third 21-year-old had been bottled at 43 per cent. This was a better balanced whisky with some attractive floral notes.

Finally, there were three older whiskies from the golden age: the 1960s. This was the time when the whisky business was getting the best tasks - before demand outstripped the supply of decent wood. The 25-year-old at 43 per cent was clearly from a bourbon cask. It smelled of sugar and butter being creamed together. A 1968 (27 years in cask) at 45.7 per cent was fruitier with a slight touch of that enchanting apricot and ginger character which is called *rancio* in Cognac. The 1966 Classic Vintage at 40 per cent had even more *rancio* character.

Information: Glenturret is open to the public all year round but opening times are restricted in January and February. Tel: 0184-656565. There is a bar and two restaurants on site which specialise in Scottish food liberally doused in whisky.

My favourite of the younger whiskies is the 15-year-old,

TRAVEL

Practical Traveller

Keep on the right tracks in Europe

Not long ago I took a train trip from the bottom end of Europe to the top, from Marseilles to Helsinki, writes Nicholas Woodworth. I did it because I had time - the journey, with a 12-hour stop in Copenhagen, required four different trains, two ferries, and took 63 hours.

I also did it because it was cheaper than flying, less than half the price. But most of all I did it because I enjoy trains.

There is perhaps not as much romance in European train travel as there was 50 years ago. But it still has its pleasures. Apart from some horrendous delays, atrociously cramped seating and one or two dodgy landings, I cannot say I have any clear and lasting memories of airports or flights I have taken; such things are anonymous and without character.

Yet I clearly remember train trips from years ago. If you want a physical sense of Europe, a feeling for changes in its climate and countryside and cities, if you enjoy chance encounters with its inhabitants, then trains are the best way to see the continent.

Old tales of Italian peasants exuding garlic in stuffy compartments during interminable journeys are no longer worth telling. Rail commuters in Britain may have continuing grounds for complaint, but European mainland rail travel is now seen as the transport of the future - services and networks on the whole are comfortable, reliable and fast.

The French TGV - *train de grande vitesse* - that I took between Marseilles and Paris, for example, takes just a little over four hours, and from city centre to city centre rivals flying for rapidity.

While most of the hardware on the continental rail network is impressive, I found the software - the vital information necessary to a complex network - less satisfactory.

It may vary from country to country, but railway employees throughout the continent

seem to regard the provision of travel information as a special favour. In Marseilles the man behind the counter was too hot and bothered to look into an alternative to the inconvenient routing he first suggested.

Even in Copenhagen station, that model of Nordic efficiency, I was sold a ticket for a service that did not exist at the time promised. On the German train to Denmark I saw an elderly American couple come close to nervous collapse because their carriage attendant had failed to tell them that the train split at Aachen. They emerged from a dining car in the wrong half to find their carriage, with all their documents and belongings, heading in the other direction.

The essential act, then, before boarding a train or buying a ticket is to check and recheck. Euro City, Euro Night, Inter City Express, Inter Region - there are scores of different types of trains.

Do not worry about making a nuisance of yourself; ask about the most convenient departure times, connections and routings. Language problems, guaranteed in many smaller or rural stations on the continent, can only make matters more difficult. But a bit of polite perseverance can make all the difference.

Perhaps the best place to begin is the International Rail Centre in London's Victoria Station (tel: 071-834 2345). For those planning a set itinerary in Europe, or wanting to avoid on-the-spot language problems, Thomas Cook publishes a European timetable, updated monthly, available at bookshops or by phoning 0733-288943. The same company also publishes *On the Rails Around Europe* (£9.95), a rail travel guide separately detailing more than 40 different routes.

It is worth finding out, too, about discounts on standard tickets, and, for those making extended tours, rail passes: these can offer real savings.

Discounts are available for senior citizens, students and children, and often for travel

outside peak and weekend travel periods.

There is a great range of rail passes such as the Eurail, available only to those living outside Europe, which offers anything from 15 days of first-class travel for \$498 (£321) to three months for \$1,398.

For Europeans a variety of passes exists, none of which offers the same comprehensive-ness. For those under 26, the Inter-rail pass offers unlimited second-class rail travel through most countries in Europe for £249 a month.

The Inter-rail 26+ pass, at £289 a month, offers unlimited travel to those of any age, but is not valid for Iberia, Belgium, France, Italy or Switzerland. However, most European countries, including those just mentioned, provide savings on their own national railways with the awkwardly-called Euro-Domino Freedom passes.

If you are contemplating a longer trip across Europe, chances are you will find yourself on an over-night train. The charms of falling asleep to the sound of turning wheels has been exaggerated.

After three nights of station shunting, customs checks and snoring passengers, I rolled into Helsinki feeling not entirely rested. Make sure you take ear-plugs.

You are more likely to get a better sleep in a proper sleeping car than in *couchettes*, which are much cheaper and provide four to six berths for mixed sexes in a converted day-time compartment. Pillows and sleeping-bag-style sheets are sometimes made of disposable material, and I found the bunks short and narrow.

Far more comfortable are single-sex sleeping compartments, with a maximum of three berths and the possibility, in some first-class compartments, of individual accommodation. You get a proper bed and, if you like, the attentions of a steward. While most over-night trains offer dining-car services, he will bring you drinks in the evening and breakfast in the morning.

I had spent two long summer days driving across arctic Scandinavia and was ready to scream with boredom. There may well have been all sorts of



The Lofoten Islands: fly, take a ship or, if you can stand it, drive. One way or another, the coasts around the islands are worth any kind of effort

Côte d'Azur of the Arctic

Nicholas Woodworth drives through dull Lapland to the dazzling Lofoten Islands

Home of rivers, lakes and virgin forests, home of the hardy Lapp and vast herds of reindeer, Lapland, I have to admit, sounds like an interesting place. Do not believe a word. The attractions of Lapland are for the most part as imaginary as its most famous resident, Santa Claus, who each year leaves the Finnish postal service holding 500,000 letters addressed to him.

I had spent two long summer days driving across arctic Scandinavia and was ready to scream with boredom. There may well have been all sorts of

fascinating things out there. Lapp folk music contests and endless boggy back-packing trails are highly considered locally. Whatever their qualities, they were hidden in drizzle behind the thick curtain of trees that, mile after mile, hour after hour, bannied in both sides of the highway.

It was not long before I began accepting any little diversion with gratitude: small villages lost in the forest, their wooden houses soddien in the rain, their pale-faced women folk grimly planting potatoes in muddy plots; a contingent of the Finnish army, camouflaged in spruce branches and clouds

of mosquitoes, engaged in some sort of field drill; an electronic pool game in a Swedish small-town take-away, intoning "Stop talkin' and start chargin'" in a Clint Eastwood voice.

So endless, unchanging and empty were the forests of the north that, listening to Maria Callas and dreaming of the Mediterranean, I missed a turn and drove 100km to a dead end before I realised my mistake.

Great was my wonder and anticipation when, not far from the Norwegian border at the end of the second day, I noticed the land beginning to lift and the forest to thin out.

Snaking between hills now, the road rose higher and higher. In an hour I was above the treeline; in another I was lost in a chilly snow-covered desert of tall mountains.

Then, without warning, I was over a high pass and the road fell precipitously to warmth and greenery. I took a deep breath of surprise. Spread out in a jigsaw puzzle below me were the spectacular islands, sea and flocks of the Norwegian far north.

Fly, take ship or, if you can stand it, drive. One way or another, the coasts around the Lofoten Islands are worth any kind of effort. Wholly surprised by their beauty, I realised where generations of European holiday-makers may have gone wrong. Instead of working in grey northern cities and massing each summer on hot, smelly beaches to the south, we should do the opposite - live and work in the south and travel to the cool, green north for holidays. The Lofotens are the Côte d'Azur of the Arctic.

Looking about as I motored down towards the water, it was not hard to understand their attraction. People love mountains and people love the sea, but rarely do they get them together, or in such generous proportions. Wherever I gazed were steep peaks, their summits snowy and ragged-toothed, their bases plunging into the deep indentations of the arctic sea.

Nor was this any ordinary arctic sea. Other places in the north at the same high latitude - northern Alaska, Baffin Island, upper Siberia - are virtually uninhabitable. But here, dwarfed by this huge and untamed background, were snug seaside villages, neat homes and barns and boat-houses painted bright red and surrounded by green fields and flower gardens.

The Lofotens are as full of life as Lapland is barren. When the rest of Scandinavia is shivering in sub-zero winter, there are parts of the Lofoten Islands that remain above freezing point. It is all due to that gigantic but invisible natural heat source, the Gulf Stream.

On this particular day, though, not even the Gulf Stream was having an effect on the gale blowing in from the open ocean. It spanked up white-caps on the milky-blue flurds, lay dandelions flat against the ground and tugged at the cod-fish hanging by their thousands from wooden racks near the shore.

Clouds rolled in and out, the sun advanced and fled. In the distance shifting fields of light played on sea and mountain snow. It made for a splendidly savage, wind-whipped day.

Five of the seven islands that make up the twisted string of the Lofoten group are connected by bridge, tunnel or short ferry ride. Ahead of me lay 400km of superb scenery. I took my time; in the arctic summer, when the sun never sets, there is plenty of time.

In the town of Svolvær I bought an island guide at a bookshop and asked the attendant what people did through the long dark months of winter when the sun never rises. There are not that many possibilities, it seems. "Shovel snow, drink beer, watch football and make babies," she replied without a moment's reflection.

In Sortland I spent a sleepless and sun-filled night in a hotel room where the curtains failed to keep out the light. Confusion continued when I came down to a vast Norwegian breakfast that was more like dinner: cheeses, meats, sliced vegetables and more kinds of herring - in brine, in vinegar or with curry or spicy tomato sauce - than I knew existed.

In the village of Eggum on the "outside" - the term islanders use for the rough unprotected waters of the open ocean - I spent an afternoon strolling the pebble beach to the sound of great arctic combers rolling in. In Nusfjord on the "inside," by the calm waters of West Fjord, I watched fishermen taking cod down from the drying racks; they may look like inedible slabs of timber but, rehydrated, they end up on the plates of southern Europeans who judge them a delicacy.

The further out I went on the islands, the taller became the mountains, the wilder the landscape. Finally, on Moskenes, I stopped at the fishing huts of Sivert Sivertsen.

Barrel-chested Sivertsen went to sea when he was 14 and has been fishing ever since. Arctic fishing, most of which takes place in the winter, is a gruelling, merciless profession and today, at 57, Sivertsen has slowed a little. In his 32ft boat, the *Nyboen*, he used to catch 40 tonnes of cod a year and more. Today, with a cod quota in force, he is only allowed to take 17 tonnes, and spends fewer weeks at sea. He fills in the extra time looking after guests in his *rorbu* and taking them out sports fishing.

Rorbu are found in almost all seaside Lofoten villages. Small wooden huts built on piles over the water, they are used by fishermen in winter. In summer they are let out to tourists and make some of the most comfortable and picturesque accommodation on the islands. I stayed a couple of days in one of Sivertsen's snug self-catering *rorbu* in the village of Reine, and found myself not wanting to leave.

Outside, against the backdrop of the black mountain that hangs over the village, water lapped against the rocks, gulls cried and boats came and went. Inside, I sat in my little kitchen trying to figure out a way to cook a fish cod.

When we set off in the *Nyboen* that morning, Sivertsen had told me that fish were not as numerous as they used to be. I had difficulty imagining how it used to be, for we had no sooner put a line over the side and begun jigging it up and down than we had a cod.

I tried it in better, and for the first time in my life found out how fish and chips should taste. I began thinking of ways to get fresh cod off the Lofoten Islands, out of Scandinavia and down to the little chippy at the end of my street in London.

Information on the Lofoten Islands can be had by contacting the Lofoten Tourist Board, Svolvær, Norway, tel: 7-69-7300, fax: 7-69-73001. *Rorbu* accommodation can be difficult in high summer and should be booked beforehand. Sivert Sivertsen can be contacted in Reine on 7-69-82239.

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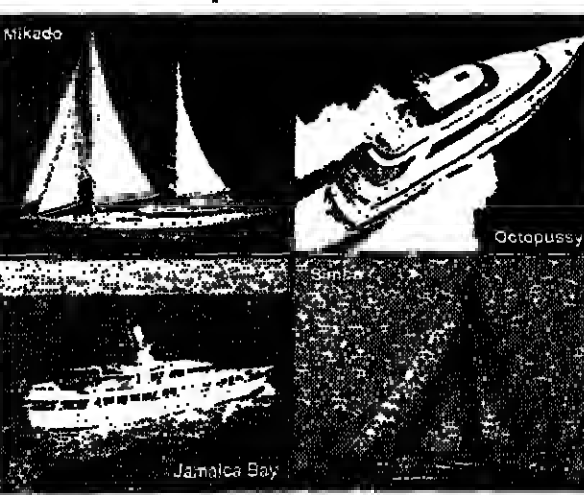
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TRAVEL

Charm amid the Algarve frenzy

W e lingered at the shoe stall for a moment too long. "You, my friend. What size? What size?" barked a burly woman as she marched up to us. She gripped my wife's arm tightly. "3,500 escudos... 3,000... 2,500," the woman growled, thinking our attempts to walk away were merely a ploy.

"Good shoe. This very good leather," she said through her mustache, and bent a moccasin back and forth in powerful hands.

Her stand was the nearest to the road at the edge of the gypsy market, sited in a field just outside Albufeira, on Portugal's Algarve coast. We later saw the woman and a male accomplice selling loafers to an elderly, gangling American, whom they hauled in and out of a chair like a puppet while he tried the shoes on.

In all, there were around 100 stalls at the market, offering shoes, shirts, pottery, rabbits, leather bags, underwear, salted codfish, dried beans and three-piece suits. There was plenty of *florano* and *jetam*: Portuguese-made shoes, blouses, rugs from India, and towels decorated with the Manchester United crest.

Most of the traders had dark

curly hair and swarthy skin. It was not difficult to imagine in them the blood of the Moors who once dominated the region, and gave the Algarve its name (their term *al garb* meaning the western land).

Behind the gypsies' vans, women washed clothes, and cooked food on primus stoves. Children ran around. Scrawny dogs, chained to the vans, lay quiet in the dust.

We found three stalls run by expatriate British. There was a couple selling T-shirts from a red van, a woman selling miniature paintings, and a man making jewellery from old coins. In the end we bought some ceramics, a bag of monkey-nuts, and two T-shirts from the British couple - but no shoes. Until a few years ago, Albufeira was a fishing village. Now it is a growing town. Shops, bars, supermarkets, hotels and "aparthotels" are stacked on top of each other, scrambling up the hill away from the sea. In spite of this frenzy of development, the narrow lanes in the town centre retain their charm. Small terraces of white-walled cottages suddenly open out to a magnificent view of the Atlantic. The smell of wood-smoke mingles with the warm sea breeze.

You get to the beach via a tunnel which has been cut through the

cliffs. There were about a dozen fishing-boats beached on the sand. During the day, the fishermen mended and baited their nets. At night they went out into the bay, their lights twinkling on the horizon under the bright stars.

One morning we went down to the harbour to watch the boats return. The men piloted their craft through the surf and into the sand at the sea's edge. A tractor hauled

In spite of British incursions, Albufeira retains its character, says Stephen Court

the boats up the shore.

A few locals, along with a knot of tourists and stray dogs, gathered around a boat that had come to rest on the beach. Two fishermen, stocky and stubby-fingered, with hands and faces like dark leather, equated in the hull, sorting through their catch. They took sole and sea bream up to the fish market, leaving the onlookers to take their pick of the rest.

Eels and sardines - still wriggling and twitching - were stuffed into

carrier bags. No-one was interested, though, in the two squid that lay in the bottom of the boat, puffing fish-belly, slowly dying without water. When the fishermen returned, those who had helped themselves to the catch paid up. The small crowd then drifted across the sand to another crew that had just come ashore.

At Albufeira, the distance fish travel from the net to the table is short. There is a restaurant right above the fish market, and the attractive, compact quayside is crisscrossed with outdoor tables.

The long, sandy beaches of the Algarve are excellent for a day's walking. One morning we set off to walk along the coastal footpath from Albufeira east towards Vilamoura. The air was fresh, and the slight chill was slowly giving way to spring warmth. Once we had left the main beach at Albufeira there were very few people around. We walked barefoot through the surf.

From the beach, the sharp outlines of white-washed walls dangled against the deep blue sky. Crumbling ochre cliffs rose from the long stretches of sand. The cliffs were thickly covered with a succulent plant with fleshy, wedge-like leaves. Its flowers, shaped like sea anemones, slowly opened to the sun. Trees

stuck out from the cliff-tops at bizarre angles; at their feet were spiky plants with curling blade-shaped leaves, standing sentry.

Everywhere, the sea was eating into the coastline, turning it into a honeycomb of crumbling caves and overhanging ledges. Along the beach there were large and newly arrived-looking buildings. Where the beach became impassable, the path went up over the cliffs.

We came across three men in waders dredging for shellfish. They were slowly dragging box-shaped nets through the sand. The waves washed away the sand, leaving the shellfish at the bottom of the net. It looked hot, grinding work. By the middle of the day, each had harvested less than a bucketful.

The furthest point east on our walk was the village of Olhos d'Agua. Its seaside stalls were opening for the summer season. There was also a bar, run by British expatriates, offering pale ale and strawberries with cream.

We sat at a shaded table outside, and ordered sardines with salad. We should have known better. When the sardines arrived, they had not been grilled in the local style. They were done in better, and served with sliced white bread. The only thing missing was the chips.



Albufeira: the distance fish travel from net to table is short

Michael Reed

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and two high-speed quad chairs should substantially improve it.

The resort's first cable car sank to the bottom of the Atlantic after a cargo ship from Italy was sunk at the start of the second world war. They had to wait 11 years for a replacement.

The resort's first cable car sank to the bottom of the Atlantic after a cargo ship from Italy was sunk at the start of the second world war. They had to wait 11 years for a replacement.

But the weather has been a big problem: "We've been losing so much business," he says.

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BOOKS

I am a real Tory. I was brought up on Henry John Buchan and Jane's *Fighting Ships*. I believe, not assertively but in a relaxed and natural way that my country is the best, the most congenial place to live, the land whose preservation is worth any sacrifice.

This attitude, and the sense of decorum that goes with it, was derelict by the Great War. It survived into the 1930s (when at the age of six I read my first "book" - in popular parlance the term now denotes a soft-bound comic - *King Solomon's Mines*) only in reflex, and was all but demolished by the great Labour landslide of 1945.

The Conservative Party did not just "adapt"; it changed practically everything except its name. Through Macmillan's soft-optioning, Heath's balance-sheet corporatism to Thatcher's "market" brutality.

So what are we? We can always buy an "image". I suppose, from a good PR firm. And keep them on a retainer to tune and burnish it. But with loss of identity comes loss of confidence, then loss of nerve (and if you do not believe this just watch what happens to the Labour Party over the next couple of years).

A dip into the well of Tory inspiration

Patience is needed to draw on the true values of life, says Alan Clark

Yet now a wonderful book has appeared, which illuminates our Party from an unusual angle. There is barely one word of politics in the text - but the combination of history, aesthetics and scholarship provide a deep well from which real Tories can draw inspiration.

The essential theme is a recurrent one. With England seen as a noble estate, and the landed interest in general as its ancient defenders, the image of a country house amid old plantations and well-managed farms easily comes to convey a wide range of sentimental and political meaning. It seems to represent the real England, besieged by ugly, alien and inhuman forces of change. The traditional country house can be portrayed as an ancient centre of order, cul-

tivation and disinterestedness. Nigel Everett illustrates this thesis by drawing on the writings - fiction as well as records and surveys - of successive periods as well as the art, the paintings, the architecture and the gardens. He never proselytises. Indeed, it is not always certain which "side" he is on. All the better. The reader has to think, make his own judgments, which in the very nature of things, alter as the evidence accumulates.

There is a permanent tension, between the ancient traditions and their benign stability, and the ever present threat of degradation. Human greed, "short-termism", the strong exploiting the weak beyond endurance, are pollutants every bit as damaging as an overdose of nitrates.

Take this verity: "Old

England - slow, dignified, shaded, and beautiful with the public wandering freely through a variety of landscapes - has given way to the modern world of assertive privacy, ugliness and tension".

THE TORY VIEW OF LANDSCAPE
by Nigel Everett
Yale University Press £35,
248 pages

How true this is of practically anywhere in the south-east today. "Modern World"? You mean nose-to-tail traffic, Wimpy bars, police sirens, ghetto-blasters, farm shops selling "early" potatoes down in from Cyprus? Well, no. This passage is a commentary on Humphrey Repton's illustrated notebook, published in 1792,

when we were congratulating ourselves that the social harmony of our own kingdom was preserving us from the horrors of the *jacquerie*.

And there are other precursors. Here is Adam Smith (but I doubt if the wording is either familiar or congenial to the existing membership of that "institute" which bears his name): "A profitable speculation is presented as a public good because growth will stimulate demand, and everywhere diffuse comfort and improvement. No patriot or man of feeling could therefore oppose it. But the nature of this growth, in opposition, for example to older ideas such as cultivation, is that it is at once undirected and infinitely self-generating in the endless demand for all the useless things in the world..."

As early as 1830 Cobbett was remarking that the (peasant) labourer was "... more comfortable where there are woods, forests and wild places, hedges commons and grassy lanes. His situation is at its worst where there are areas of high fertility devoted almost entirely to corn".

There are dark passages, it is true, in the history of Conservative magistracy. And none more terrible than the Highland clearances whose evidence in Sutherland, even to this day, can be seen in the pleasing homesteads, idyllically situated at the water's edge, hurried by fire often started when the crofters' families were still inside, by the Duke's militia.

But in the main our country was uniquely favoured in the temperate nature of its climate, its constitution, its manners, and its agriculturally based wealth. Comfort coincided with virtue, beauty, liberty, and easy social relations. Tories (real Tories) can still draw encouragement from this. It remains a basic truth, deeply implanted in the subconscious of very many of our people. But if we are to draw full advantage therefrom we do need at times great patience - mirroring that of Nature herself.

Doorman to the modern world

We read for many reasons, most of them not very lofty. Among the more significant are these two: that we need to understand ourselves, and to know our world. With the exception of Barbara Cartland-style pulp, most books do something for us in one or other direction. Great literature is great because it does much in both.

But great literature does not come off the presses every day. We could survive on a diet of mere competence - novels a shade thin; poetry a touch too strained - but our usual resource is to return to the classics, which have that status because they satisfy us richly.

There is however another resource, and it constitutes the most rapidly growing literary genre of the 20th century: biography. Biography fully meets the two needs noted, satisfying them through our curiosity

Galileo was inquisitive, inventive, mathematically adept. He was fascinated by the view above him in the clear Italian night sky. He perfected the telescope, and terrified the church by revealing more stars than had been guessed before, hitherto unseen satellites orbiting other planets, valleys and mountains on the surface of our moon.

Because scripture taught that the earth sits immovably in the centre of the universe, whose celestial spheres are driven round by angels, the church could not tolerate this new veridical cosmology. It threatened their authority. By threats and intimidation, Pope Urban VIII forced Galileo to recant his espousal of the Copernican system. That the church should only come to its own recantation in 1992 speaks volumes about the conflict of faith and reason.

Galileo was the son of a court musician who made some of the earliest experiments in opera. Galileo père had his son educated at the famous abbey of Vallombrosa, and then rescued him from a desire to remain there as a monk. As ever with fathers, he wished Galileo to follow a profession, and enrolled him at Pisa University to study medicine. But Galileo's heart lay in mathematics. By persistence and chutzpah he secured a lectureship first at Pisa and then at the more prestigious Padua University, and launched himself on his razor-edge dance of danger with the Inquisition.

Galileo not only made discoveries of the first importance in astronomy and physics - especially in the laws of motion, thus breaking the stranglehold of Aristotelian ideas - but he was also an inventive genius. He devised pendulums for clocks, ways of improving telescopes, instruments for measuring pulse-rate and temperature. His telescopic discoveries made him an international star, despite disgrace by the Inquisition he had correspondents and visitors from all over Europe, including among the latter Thomas Hobbes and John Milton - who set the fallen Lucifer's realm in his tale, booking it firmly to events in the contemporary world: the flight of the spacecraft Galileo to Jupiter, still taking place as this is written, and the decision of the Vatican in 1992 to acknowledge its fault in ill-treating Galileo three and a half centuries ago, by dragging him before the Inquisition, humiliating and imprisoning him.

Indeed Galileo's story is a microcosm of the epic struggle between science and religion.

A.C. Grayling

GALILEO: A LIFE
by James Reston Jr
Cassell £18.99, 319 pages

about the lives, times and circumstances of our fellows. It is an essential human trait to gossip, to eavesdrop, spy and pry, and it is essential because without it none of us could be fully human or social. The only way we have of interpreting ourselves and others, and therefore of finding our way through the vast fabric of relationships that constitutes the social world, is to be primed with insight into human nature and its variety. Gossip is vital; literature, biography and history are gossip writ large; we therefore cannot live without them.

Anyone's life is interesting, even that of a village Hampden in a sequestered vale. But to read about great lives, lives which change the world, is to get not just biography but history. Galileo Galileo's life is historic in just this way. If any one man acted as doorman to the modern world, he has an excellent claim to the title. In this readable, characteristic example of the American style in popular biography, James Reston takes us through Galileo's tale, booking it firmly to events in the contemporary world: the flight of the spacecraft Galileo to Jupiter, still taking place as this is written, and the decision of the Vatican in 1992 to acknowledge its fault in ill-treating Galileo three and a half centuries ago, by dragging him before the Inquisition, humiliating and imprisoning him.

Indeed Galileo's story is a microcosm of the epic struggle between science and religion.



Elaine Feinstein's last novel, *Loving Brecht*, was a delicate, low-key evocation of a city, Berlin, in a period of turmoil. It approached its subject glancingly, telling the story of the playwright Bertolt Brecht through the eyes of a nightingale singer who had a long affair with him. Feinstein's new novel, *Dreamers*, is also about a city, this time 19th-century Vienna. It is more obviously historical, opening like an old Hollywood movie with the announcement of a date - 1848, year of revolutions - which tells us what kind of narrative to expect.

This is followed by a piece of celluloid scene-setting, a portentous authorial announce-

ment which cries out for accompanying martial music: "It was a February morning in Vienna. The wind was howling savagely from the east and a little snow was settling on the domes of green and bronze in the First District". From this panoramic view, Feinstein sweeps down to focus first on the houses, cake shops and coffee houses of the rich, then on the servants who are hard at work ministering to them.

These cinematic techniques

are used throughout the book, cutting abruptly from the grandest of town houses to the garrets of the poor, from noisy crowd scenes to a child's deathbed. Most of Feinstein's characters are Jewish and her ambitious aim is to plot their struggle to survive and prosper as Metternich is overthrown and a new, more liberal order seems to be in the making in Austria.

Unfortunately, *Dreamers* has more than technique in com-

DREAMERS
by Elaine Feinstein
Macmillan £15.99,
339 pages

mon with the Hollywood costume dramas of the 1930s and '40s. People rush in and out making terse announcements: "Revolution in Paris. Barricades have gone up in the streets. Royal troops have fired on the crowd."

CONSEQUENCES
by Helen Muir
Simon & Schuster £15.99,
231 pages

The chief characters are a lovely but mysterious orphan, Clara, who cannot remember her origins; a child prodigy, Joseph, whose talent in playing the violin elevates him to international stardom; and Anton, the literary, left-leaning son of a fabulously wealthy banker. The novel spans 16 years of their lives without ever really bringing them alive as they move on and off Feinstein's richly decorated sets like pretty, lovingly-crafted puppets.

Helen Muir's novel is constructed not like a Hollywood costume drama but a TV soap opera. Its characters are as unlikely as those in *Dreamers*, and its title, *Consequences*, suggests that they are all tak-

ing part in an elaborate comedy of manners.

Muir is best at dialogue, especially the jerky speech of a woman who has summoned up the courage to call a man who might not be interested in her: "Hallo. I wondered how you were. You... you said you were going to ring me but you haven't. You sound a bit miffed at your end. Can you hear me? Have you got somebody there?"

Most of the characters meet

at a ghastly singles club off the Cromwell Road, the men looking for sex and the women seeking something more romantic. Yet the novel cannot decide whether its keynotes are farce or pathos, cruelly gulling a character on one page and a moment later soliciting sympathy on his or her behalf.

Much of the plot stems from an incident at the club in which Leonard, a narcissistic cartoon animator, tramples on his dancing partner, an over-dressed blonde in grey lamé who turns out to be a captain in the Life Guards. These are easy targets and it is a pity that Muir has settled for belly laughs rather than something which might really engage readers' hearts.

Suitable cases for dramatic treatment

Fiction/Joan Smith

Three years ago Andrew Roberts made his mark as a historian with his admirable biography of Lord Halifax, the man who very nearly became Britain's wartime prime minister instead of Winston Churchill. He is currently writing a much-needed new biography of Lord Salisbury. Meanwhile, he has produced a pot-stirrer which should help keep his name in lights.

Eminent Churchillians is modelled on Lytton Strachey's *Eminent Victorians*, first published in 1918, and Roberts fully acknowledges the debt. Strachey introduced a new form of biographical writing: subjective, selective and short, and by no means wholly dependent on narrative. In his own words, he sought "a brevity

which excludes everything that is redundant and nothing that is significant". He could praise as well as blame. Roberts has many of the same qualities: incisive use of quotations, telling anecdotes and acquaintance with out of the way sources, especially diaries. Yet there is one huge difference. There was recognisably a Victorian era; there was no such thing as a recognisably Churchillian era.

Churchill was a man who, had it not been for the second world war, would have gone down as a political failure. Even then, he was defeated in the general election of 1945. When he came back in 1951, it was fairly well known that - to put it mildly - he was too old for the job. To call all that the Churchillian era is stretching historical licence. Much of the period might as well have been called the coalition era or even the Attlee era, which then led

quite naturally to Butskellism: "wartime" and "postwar" are the simplest terms of all. The insistence that there was something distinctly Churchillian mars the book.

There is another fault. Roberts poses as a radical revisionist and, had he written 20 years ago, perhaps he would have been. In fact, he specialises in soft targets: King George VI, Lord Mountbatten, Sir Walter Monckton and Sir Arthur Bryant. I have not come across anyone for at least 15 years who regards any member of that quartet with uncritical admiration.

Roberts treats the king relatively gently, more sniping than shooting. He accuses him of naïveté and writing a "fourth-form geography essay" after a meeting with Roosevelt. Yet if we have a hereditary monarchy, it is unreasonable to expect that they will all take firsts at Cambridge. The royal

family's move to keep most of the dethroned sovereigns of Europe out of Britain - criticised by Roberts - seems rather astute.

Despite the fact that he was

EMINENT CHURCHILLIANS
by Andrew Roberts
Weidenfeld & Nicolson £20,
334 pages

at least as much an Attlee man as a Churchillian, Mountbatten receives 80 pages. His vanity and care for his own reputation are undisputed. Yet, as Roberts writes, ultimately that reputation must stand on his record as the last Viceroy of India. Roberts condemns him for his acceleration of independence and partition.

Others will reach their own judgments. Despite the violence, it still seems one of the wisest decisions by the post-

war British government (i.e. not by Mountbatten alone). One might look (as Roberts does not) at how other European countries tried to defend their overseas possessions after the time to leave: in France there was civil war. Roberts appears to think that if Britain had stayed in India longer, and used air power to quell local difficulties, it might have been possible to impose democracy on the British parts of Africa.

Still, all that is hypothetical. The Roberts case against Walter Monckton is that he was too much of a charmer. As minister of labour, he always sought to resolve industrial disputes by splitting the difference between the employers' offer and the unions' demands. That is true, but was very much the climate of the time. Monckton's successor was Iain Macleod; he regarded Monckton as a hero. No-one then

thought of trade union reforms à la Thatcher, just as (unmentioned by Roberts) no-one thought of Britain joining the original Common Market.

Arthur Bryant, as a fellow historian, is easy meat. Roberts tells the story of how close Bryant was to fascism right up to the war. There was a serious move to have him interned, but another historian, the now Lord Dacre, advised the authorities not to worry because Bryant would "change with the times", which he duly did.

The Dacre story is one of the best in the book. There is some other political tit-for-tat of the kind that will be enjoyed by those who like the diaries of Chips Channon and Alan Clark. But there is also a nasty streak. Historians should not seek to get away with statements like "Murphy was an active homosexual and extreme left-winger" without



Mountbatten: "His vanity and care for his own reputation are undisputed"

some elucidation, and the claim that Rab Butler's move to the Board of Education was the "wartime political equivalent of Port Stanley" reminds one of Lord Tebbit's recent remark that being president of the European Commission is

like being chairman of Basingstoke Council. Indeed there is a touch of Tebbit - "the semi house-trained polecat" - throughout *Eminent Churchillians*. On to Salisbury before it becomes catching.

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Oddities in demand

So it is steady as she goes. The week the leading auction houses topped their takings for the season and cheered themselves up — just. Sales at Sotheby's were up 16 per cent to \$218m, while Christie's managed a 14 per cent lift to \$781m. In dollar terms the results were not quite so impressive (rises of 15 per cent and 12 per cent respectively). But over the days the big salesroom's think in dollars. But they are entitled to put the best gloss possible on what has been a mildly encouraging year.

As Sotheby's president Dedrick Brooks says, "We have a lot of hope for a good strong climb back. If we could grow by this rate every year we would be ecstatic. We've had some wonderful goods that seemed but prices have not moved much."

fright and decided they could live without art. Christia's received the coldest hlast and its sales were very disappointing. It failed to recoup its gamble on the McCormell pictures and presumably still has an unsold Cézanne in its strong room.

Sotheby's managed to get away its two major works in London, paintings by Manet and Monet, for \$4.4 million and \$3.5 million, respectively. But this is still a weak market. In the late 1980s the auction houses raced ahead by selling Impressionist and modern art at ever rising prices (to a peak of \$22.5m for a Van Gogh), usually to the Japanese. This sector accounted

But the real star among the medium-sized auction houses was Christie's South Kensington which added 28 per cent to its turnover, weighing in with an impressive £50m. There were its usual idiosyncratic records - £39,600 for a camera (although it was gold plated); £203,500 for a car number plate, K1 NGS; and £22,100 for a Walt Disney poster.

antique examples which can be cheaper than contemporary and have a tradition of holding, or increasing, in value." This message has got home, not least among recipients of City bonuses. Christie's furniture sales were up 44 per cent last season, with record prices set for pieces designed by Chippendale and Charles Rennie Mackintosh.

If recent buyers of post-1850 art are looking for the strangest there always will be bidders for unusual masterpieces. The most surprising price of the season was the £7.7m paid at Christie's for part of an Assyrian relief of the 7th century BC which had lain ignored for decades at Canford School. Equally bizarre was the £41.5m paid for a 12th century carved "unicorn" horn. Less surprising perhaps was the record £2.4m which secured a bronze lion from Moorish Spain, a record for any Islamic work of art. Sotheby's secured a 17th century oil for a 20th century doll, and £276,000 for a Purcell manuscript.

The most surprising price of the season was the £7.7m paid at Christie's for part of a 7th century BC Assyrian relief ignored for decades on the wall of the tuck shop in Canford School

for over half their turnover. It now contributes nearer a quarter, and there are some doubts as to whether Impressionist paintings will return to the levels of 1989-90 for a decade.

buyers from 10 to 15 per cent of the hammer price, the same level as Sotheby's and Christie's. It has been forced to do so because its rivals are involved in a price war when pitching to sellers, cutting their charges from the traditional 10 per cent premium in their keenness to secure goods for sale. Bonhams was losing out and reckons it must be more flexible in its terms for sellers if it is to continue to grow.

Fortunately there will always be people who buy art because they love it, and they have become more active again in the past year. The prices that sellers were prepared to accept (or that were forced on them by auction houses desperate to boost sales) came into balance with the selective purses of potential buyers.

Along with the malaise in post-1970 art (and to a lesser extent among Old Masters which have become a tricky market, despite the remarkable £4.2m paid at Sotheby's for a landscape by the Dutch 17th century artist Aelbert Cuyp), and the improving demand below the £10,000 a lot level, there were three other noteworthy features to the season – the strong demand for furniture; the premium carried by anything odd and exceptional; and the growing importance of South East Asia to the future of the art market.

At the moment the mainland Chinese are interested primarily in stamps, jewellery, watches, jade and Chinese paintings. If they follow the pattern of the Chinese of Hong Kong, Singapore and Taiwan, oriental ceramics and bronzes should be next on their collecting list. A taste for Impressionist art, to say nothing of Old Masters, may take a generation to develop, but in the meantime the auction houses will be doing everything in their power to speed up the process.

Codes of honour put to the test

Martin Hoyle reviews 'Le Cid' at the Cottesloe

whom Bernard Lloyd plays disastrously well. Urbane, witty, dry, fatally gifted with common sense, he gently ends the giddy vortex of honour-bound vengefulness that the ranting Ximena and the sorrowful Cid are caught up in, even using the word "point-

less" of the characters' guiding principles. The trouble is that once you think about it in these terms it undermines the whole previous 100 minutes... Kent's production, on the other hand, initially takes the piece seriously, inspiring some stately tableaux in Mark Hen-

der's dramatically dimming lighting and good romantic playing from the cast. In the title-role Duncan Bell looks every inch and sounds every diphthong the young gallant torn between love and a code of behaviour that makes political correctness look like Lib-

erty Hall, Susan Lynch is a promising if coarse-grained Ximena: strong, rather tough, featured, she tends to yell at moments of stress. Crudeness of attack, far from adding to the very real intensity she generates, merely leaves one wishing for a tighter control and discipline. Translation and possibly production seem to resign themselves to audience laughter at Ximena's bull-in-a-china-shop love-and-death emotionalism. The nice indication of her hysteria, when she refers to the sword of the Cid's opponent as "still bloody" gets overlooked in the general conviction that she is almost off her rocker. It may be one way to express Cornell's dramatic vibrancy to a sceptical British audience, but I wonder

whether it is the right one.

Costumed as for Spain's Golden Age (Philip II going on Cervantes), the company do not lack for actresses as distinguished as Faith Brook and June Watson looking concerned as confidantes. As the quabbling fathers who trigger the tragedy, Edward de Souza and Alan MacNaughtan are snarling, toothless old curs, not too stiff in the joints that they cannot destroy their children's happiness for their own pride, capable of the bland variety of such lines as "Prove yourself to be/A worthy son to such a man as me".

The real heroine emerges from the shadows of a subplot, that phenomenon known by French classicism. Samantha Bond brings tragic dignity to the figure of the Infanta, the king's daughter who loves Rodrigo but, knowing marriage to be impossible for reasons of rank, does all she can to throw him together with Ximena. She is left at the play's guardedly happy ending rocking silently to and fro, in indication of how the king's daughter will move if all parties shared the same attitude towards it. If you see Cid, tell him.

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*So many arrive as
strangers, weary of pain
and fearful of the unknown.*

*They gladly stay as
friends, secure in the
embracing warmth, fortified
and cherished to the end
with the help of your
graceful gifts.*

*I thank you kindly
on their behalf.*

Sister Superior.

Love versus duty: Duncan Bell and Susan Lynch. English couplets deflate the pomposity

Abstract 15

Pop 'Establishment' left out in the cold

The Mercury Prize is likely to raise some hackles in the music industry, says Antony Thorncroft

What would we do without arts prizes? The Turner gets the conceptualists and the painters at each other's throats and the Booker sets post-modernists against readers. And now the Mercury Prize for the British pop album of the year is shaping up nicely to make many music people very cross. This is the third year in which ten albums have been short listed by "experts" to compete for £25,000 - and a barrage of promotional opportunities.

Inevitably the award goes to a band that hardly needs it - last year Suede generously gave the money away, although, like the 1992 winner Primal Scream, it probably expected a bigger career boost from the prize than actually happened. This year's ten albums suggest the careful mix and match of a finely balanced committee. There is a representative from most of the myriad faces of pop - except one.

There is no room for the Establishment. Albums by the Rolling Stones, Elvis Costello and Kate Bush made the final 20, and then stalled. Pink Floyd failed to get even that far. The Mercury is obviously going in for a bit of proselytizing, for the shock of the new, but in the most balanced way.

So what is on offer? The only big name listed is Paul Weller who, with *Wild Wood*, has contributed the whimsical hippy album. This is what happens to abrasive young punkers when the pop business gets to them, especially in the wallet. The

lyrics go nowhere, slowly, and the melodies come packaged from some Californian dream factory. What a contrast this is to the punk album on the list, from the Ulster band Therapy. *Troublegum* hits you like a sledgehammer, and does not loosen its grip through a welter of songs which are almost a parody of life seen from the gutter. So much youthful angst, so much raw energy and power – it is as stimulating as Weller is soporific.

The inevitable black soul entry this year is Shara Nelson with *What Silence Knows*. She has more genuine emotion than last year's representative of this form, Dina Carroll, and seems equally happy with the heart-torn ballad and the old fashioned disco whirl.

This is much easier listening than the pseudo-classical contestant, Michael Nyman's *The Piano Concerto* which shares the CD with TGV, his pen to the French express train. Nyman takes a tiny little tune and adds layer after layer of sound, breaking the back of the simple melody. *The Piano Concerto* was originally the soundtrack of Jane Campion's movie *The Piano* and has that unnecessary, background, feel to it.

There must be an album to keep the largest sector of the pop buying public, young girls, happy, and naturally Taka That's *Everything Changes* makes the top ten. Gary Barlow writes some very infectious songs; indeed the band is much better than its hunk poster image, and if Take That are very clever they could avoid the inevitable three year life span that dogs pretty boy bands and become a serious music making machine.

Old rockers will like Ian McNabb's *Head Like a Rock*, which keeps the Bruce Springsteen tradition alive. Little surprise that it was recorded in LA with Neil Young's backing band, Crazy Horse. With its crashing chords and harmonious melodies, this will restore the faith of jaded 30 year olds in the redemptive power of

Naturally there has to be a "British" pop album and what better than Blur's *Parklife*. This is how today's youth likes

to see itself: urban, street wise, funky, and basically light hearted. There is something of Madness, something of Squeeze in this generous hotchpotch of 16 songs. It is slightly too sharp for its own naivety, but anyone wanting a musical commentary on Major's Britain could hardly do better.

When the young are not being cheeky they are dancing, and the three dance albums included once again neatly cover the musical range. *His'n'ers* by Pulp is what might happen at a suburban disco when filtered through the ears of an imaginative spectator; *Music for the Filled Generation* by The Prodigy is hard core techno rave, pretty unrelieved, insistent, body jerking, stuff; and M-People's *Elegant Slumming* is the type of disco music loved both by inveterate clubbers and the Christmas office party crowd.

To build up more excitement before the announcement on September 13, the organisers of the Mercury Prize have persuaded William Hill to give odds on the contestants. Blur is favourite at 2-1, with Take That at 7-2. My choice would be Mr People (5-1), not because it is likely to win – it is too light heartedly predictable to carry weight with the judges – but because it has all the virtues of good pop: immediate accessibility, a wonderful beat, and insidiously memorable, albeit melodramatic, lyrics. It's singles from such as "One Night in Heaven" and "Moving on Up" from their opening bars because they are the songs that are played in the boutiques, the hairdressers, the sounds of the age.

The Mercury Prize helps to give the chaotic pop world some shape and substance but it still seems to skim the surface of the art form. No regrets at the failure of dreary, one-dimensional rappers to make the list, but why no jazz, currently enjoying yet another revival; or big band blues; or country? Still the sampler, which includes a track from each album, should be out in the next two weeks, and gives an instant run-down on the current state of British pop.

Sculptural horses frozen in mid-gallop hover above the stage; two huge gilded frames turn the action into a picture—one empty, the other containing a transparent mirror where characters can see themselves and through which others can loom. Is someone recalling the famous, or infamous, *ENO Masked Ball?* Designer Peter J. Davidson is certainly an old opera hand. But, despite these visual echoes, Jonathan Kent's production of *Cornellie's Le Cid* at the National Theatre's Cottesloe comes up with nothing so revolutionary.

The French Classical theatre is notoriously hard to bring off in English. "Le style, c'est la chose," that's the trouble. Even so, the French alexandrine, with its traditional English pentameter leaves us with the problem of rhyme. We associate rhyming couplets with pantomime, with facetiousness, the intentionally trivial and the aesthetically shallow. The more serious, the more successful translations, notably in Molière and versions of Corneille by Ranjilt Bolt. Bolt provides the translation for this *Cid*, much of it good, no-nonsense rhyming couplets, but the ending, the thirty-eight of the love-versus-duty plot. Some rhymes have a period flexibility ("pur-

suit/driven to it"), some are more strained ("by it/right"). Some have the fatal ring of a McConagonal: "Two kings were captured on a single day/Nothing could stand in the young hero's way." But surely not on the banks of the silvery Tay.

More interestingly, and perhaps disturbingly, *Le Cid* has compromised with the English sense of the ridiculous. Where the French *tragedie* poses the heroes, preens and poses, English theatre cultivates the pragmatic. *Le Cid* portrays the anguished application of a code of honour unstoppably unleashed when the father of our hero is mortally insulted by the father of the hero's betrothed. A blood feud results. Rodrigo (the Cid) kills his future father-in-law which miffs his fiancée Ximena no end. She in turn demands vengeance though she still adores him. English couplets certainly deflate the pomposity but reduce the nobly eloquent protagonists to the level of a gang of thugs. The noblest of the noblest murderous tit-for-tat is terminated when nancy bangs their heads together.

Bolt seeks to suspend our disbelief, perhaps simply to keep our interest, by introducing a sardonic element of - could it be? - mockery in the figure of the Castilian king.

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TELEVISION

BBC1

7.30 News. 7.50 Fairs the Cat. 7.45 Joe 90. 8.10 The Adventure of Shoggy. 8.35 SWAT Kats. 9.00 Patsy & Co.

10.45 Film: Clarence the Cross-Eyed Lion. Pilot for the 1980s TV show. Starring Marshall Thompson (1980).

12.25 Weather.

12.30 Grandstand. Introduced by Steve Rider. 12.35 Motor Racing: The final qualifying session for the German Grand Prix. 1.00 News. 1.05 Advertisements. Highlights of last week's Goodwill Games from St Petersburg in Russia. 1.50 Racing from Goodwood: The 2.00 Vodepage Conditions Stakes. 2.05 Equestrianism: The World Games from The Hague. Action from today's cross-country section of the three-day event. 2.30 Racing: The 2.40 Vodepage Nassau Stakes. 2.45 Equestrianism. 3.05 Racing: The 3.15 Vodepage Stewards Cup. 3.20 Equestrianism. 4.25 Swimming: British National Championships from Crystal Palace. 5.05 News Round-Up. Times may vary.

5.15 News.

5.25 Regional News and Sport.

5.30 A Word in Your Ear. Alison Downing. Patrick Moore. Tom O'Connor and Tracy Edwards take part in the verbal communications game.

6.00 Film: True. A computer built to dispatch into an electric car which he must battle with microchip gladiators. SF adventure, starring Jeff Bridges and David Warner (1989).

7.30 Patsy Win Prizes.

8.10 Police Rescue. A tormented artist holds his daughters at gunpoint - forcing Angel to play the role of mediator. Drama, starring Steve Barlett.

9.00 One Foot in the Grass. A pleasant day on the Norfolk Broads soon degenerates into a series of class-war who moonlight as a mysterious marooned. Comedy, starring Richard Wilson.

9.30 News and Sport: Weather.

9.35 Shirley Bassey: I Am What I Am. The legendary Welsh-born cabaret singer discusses her career, claims for success, and its ultimate cost to her family life.

10.40 The Shirley Bassey Concert.

11.40 Film: From the Hip. Comedy drama, starring Judd Nelson (1987).

1.30 Weather.

1.35 Close.

BBC2

6.00 Open University.

12.15 Film: The Gay Divorcée. Romantic comedy musical about an unhappy married woman seeking a divorce. Starring Hollywood dancing duo Fred Astaire and Ginger Rogers (1934).

1.55 Ways of Seeing. John Berger assesses the impact of photography on people's appreciation of art from the past.

2.35 Film: A Town Like Alice. Wartime drama chronicling life among women prisoners held by the Japanese in Malaysia. Starring Virginia McKenna and Peter Finch (1956).

4.30 Car Boots. Why MPs are calling for tighter controls on car boot sales and what the implications for stolen goods are.

4.45 Film: Bride and Prejudice. Drama chronicling the laughter and tears of four friends reunited at a friend's wedding for the first time in 20 years. Starring Helen Mirren and Sela Ward star (1990).

6.15 Design for an Alien World. The equipment designed for use during an expedition to Saturn's moon Titan.

6.45 News and Sport: Weather.

7.00 A Telling Eye. Biography of an artist, essayist and Booker prize-winning novelist John Berger, who over a period of 30 years has created many acclaimed programmes on art, including the influential Ways of Seeing, an episode of which was shown earlier today.

8.00 Brooklyn Bridge. Award-winning filmmaker Ken Burns traces the history of the famous span, detailing how the enormous construction problems were overcome in a variety of ingenious ways to create one of America's best-loved landmarks.

9.00 Seinfeld.

9.25 Film: Truly, Madly, Deeply. Juliet Stevenson stars as a woman whose dead ex-lover (Alan Rickman) returns to teach her how to love again. Anthony Hopkins's romantic tragedy, also stars Bill Paterson and Michael Maloney (1991).

11.10 Film: Goli! South. Tongue-in-cheek Western about an outlaw (Jack Nicholson) who moonlights as a mysterious marooned. Comedy, starring Richard Wilson.

1.30 Close.

SATURDAY

6.00 GMTV. 6.25 The Little Hobo. 10.15 The TV Chart Show. 12.30 pm Starting from Scratch.

1.00 ITN News: Weather.

1.05 London Today: Weather.

1.10 Movies, Games and Videos. Reviews of Lead Puppies, starring Shirley Maclaine and Kathy Bates, the animated fairytale Thumbelina, and Elton John in North.

1.40 WCW Worldwide Wrestling. Life Goes On.

3.30 Star Trek: Voyager. A bomb explodes on an aircraft owned by a wealthy shipbuilder, but the cause of the man's death is not so straightforward as it first appears.

4.30 Cartoon Time.

4.45 ITN News: Weather.

5.00 London Today: Weather.

5.10 Time Travel. Time-travelling cop Darin Lambert investigates a corrupt horse-racing syndicate using 22nd century laser technology to improve the performance of their steeds.

6.00 Scavengers. John Lee leads four more contestants into a futuristic environment designed to test their mental and physical abilities to the limit.

7.00 Celebrity Squares. Contestants compete for cash and cars with the help of celebrities including Kathy Staff, Kathi Chegwint, John Inman and Frank Sough. Hosted by Bob Monkhouse.

7.30 Film: Columbo: Murder - A Self Portrait. The shabby detective draws on his vast palette of eccentric characters in a murder on a world-famous painter. Crime drama, starring Peter Falk (1989).

9.10 ITN News: Weather.

9.20 London Today: Weather.

9.25 Film: Aliens. Spooky Weaver stars in this action-packed science fiction sequel, the last of a series, as a whole colony of the vicious extraterrestrials (1986).

12.00 Film: Billion Dollar Threat. An American secret agent finds an evil mastermind plotting to destroy the world's financial system. Adventure, starring Debra Ruggie and Patrick Macnee (1979); ITN News Headlines.

1.45 Tour of Duty.

2.40 The Big E.

3.35 New Music.

4.35 SPUL.

5.00 Hot Wheels.

CHANNEL 4

6.00 4Tel on View. 6.25 Early Morning. 10.00 News. 11.00 Sports. 11.20 The Big 5. 12.30 pm A Girl's First Love. English subtitles.

12.25 Film: On Rossini's Melodrama. Based on the play by Friedrich Schlegel, a Vienna playboy's practical joke on four Army officers. Anton Walbrook stars (1955).

2.50 Racing from Newmarket. Coverage of the 3.10 EBF Colman's Mustard Maiden Stakes. 3.45 Robinson's Antiques Handicap. 4.15 Colman's of Norfolk Stakes, and the 4.50 Mulbury Value Handicap Stakes.

5.05 Brookside: News Summary.

6.30 Opening Shot. Report on the popularity of cartoon hero Timon, the Belgian reporter created in 1929 by aspiring journalist Georges Remi, better known as Hergé.

7.00 The People's Parliament. New series. Members of the public are given a chance to debate the week's controversial issues in Granada Studio's House of Commons replica. The opening discussion asks whether persistent young offenders between the ages of 12 and 14 should be given custodial sentences. Chaired by Lesley Fiddoch, with the position of lobby correspondent taken by Helen Carter.

8.00 Film: From Here to Eternity. Oscar-winning drama set on an army base in Hawaii in the months before Pearl Harbor. Starring Burt Lancaster, Deborah Kerr and Frank Sinatra (1953).

10.10 Blue Heaven. New series. Short, sharp and snappy, this series follows the Birmingham roots for the dizzy heights of stardom.

10.45 The Best Intentions. Anna goes into an apartment for a night, and leaves a message for her husband, who wants no more to do with him. (English subtitles).

12.10 Late Licence.

12.20 Herman's Head.

12.50 Just for Laughs.

1.00 625 Live: Little Angels.

1.30 Passengers.

2.55 Beavis and Butt-Head.

3.00 Pinpoint of Three.

4.05 Close.

REGIONS

ITV REGIONS AS LONDON EXCEPT AT THE FOLLOWING TIMES:

12.30 Movies, Games and Videos. 1.05 News. 1.10 Nipal News's IndyCar. 1.40 Local. 1.45 The Great British Train Robbery. 1.50 The Great British Train Robbery. 1.55 The Great British Train Robbery. 2.00 The Great British Train Robbery. 2.05 The Great British Train Robbery. 2.10 The Great British Train Robbery. 2.15 The Great British Train Robbery. 2.20 The Great British Train Robbery. 2.25 The Great British Train Robbery. 2.30 The Great British Train Robbery. 2.35 The Great British Train Robbery. 2.40 The Great British Train Robbery. 2.45 The Great British Train Robbery. 2.50 The Great British Train Robbery. 2.55 The Great British Train Robbery. 3.00 The Great British Train Robbery. 3.05 The Great British Train Robbery. 3.10 The Great British Train Robbery. 3.15 The Great British Train Robbery. 3.20 The Great British Train Robbery. 3.25 The Great British Train Robbery. 3.30 The Great British Train Robbery. 3.35 The Great British Train Robbery. 3.40 The Great British Train Robbery. 3.45 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It is not necessary to travel very far from Britain to realise what a very strange place it must seem to foreigners. To spend two weeks in the south of France is to be regaled with the most hair-raising stories of local corruption.

Fingers point at this or that new development which would never have been allowed had for an even larger than usual bribe. The strange thing is that the local politicians who take these payments - no names here, I am afraid - are often spoken of extremely warmly. After one such encounter I returned to our rented villa and turned into British satellite television news. Almost the entire bulletin was devoted to the fact that two Conservative MPs had been paid £1,000 each in return for asking a

parliamentary question. Not very seemly, I agree, but southern French heads would shake in disbelief at an entire national news bulletin being dominated by such an item, particularly as it was generally agreed that the two MPs had broken no law.

On my return to Britain I discovered that the newspapers were dominated by another story of less than global significance: a young man was being exonerated by every columnist of note for putting his hand in his pocket and rubbing a bit of dirt on a ball.

True, the man in question, Michael Atherton, is captain of the English cricket team, and his

action, during a Test match against South Africa, appeared to infringe one of the less well-drafted laws - never say "rules" - of cricket.

But I am sure that it is not just over-exposure to the heady air of southern French corruption which makes me think there is something absurd in the extent to which Atherton's folly has been elevated to the level of a national scandal, with leader writers being obliged to decide what retribution the readers of the Daily Bruise or Beast would wish to see exacted upon a man. It is generally admitted, of outstanding qualities.

Some calls for Atherton's resignation, such as from the BBC's

cricket correspondent, Jonathan Agnew, are doubtless sincerely felt. But there is a self-serving element here which goes beyond cant and hypocrisy.

It is that the newspapers love a story to be as big as possible, and that there is nothing bigger than an English cricket captain being sacked. It is also true that the press, like all good story-tellers, require a beginning, a middle and an end. First, with the aid of cameras, they find something out.

Next they expose the malfeasance to public scrutiny and ridicule. Finally the evil-doer must admit the enormity of his error and resign, thus proving that the press

were all along justified in their hysteria.

We saw the same process in the case of Tory minister David Mellor (sin: adultery), who lost the game, and in the case of BBC supremo John Birt (sin: dodgy accountancy), who won.

Those who win are highly embarrassing for the press, as The Times has discovered with John Major, who has survived its repeated assertion that he will not survive as prime minister with something bordering on insouciance.

Generally the press have a stock response if one of those who were told to resign succeeds in not doing so. It is that standards of moral

probity in British public life have declined lamentably.

Older heads are fond of recalling the case of Sir Thomas Dugdale who resigned, 40 years ago, as minister of agriculture in the wake of the Cribbet Down affair, in which the wrong-doing was wholly that of ministry officials. Sir Thomas declared that he was the minister responsible, and must fall on his sword - or plough.

Which leaves me with one dangerously subversive thought. When was the last time that a newspaper editor resigned because of a blunder that he had committed (it does happen)?

Or when, in the late lamented style of the late lamented Sir Thomas, did a newspaper editor last resign because of some wrong-doing on the part of one of his minions? Answers on a (very small) French postcard, please.

Dominic Lawson is editor of The Spectator.

Such woolly ideas

Nigel Spivey

Once it was fur coats. Now, since fashion gurus have obscured the difference between real and ersatz hides, it is woolly jumpers. Sports one thought of as staid - the Scottish kiltwear specialists, with their changeable tartan ties and avuncular cardigans - have become targets of the Animal Rights Militia.

This is the organisation which gutted the Cambridge store of Edinburgh Woollen Mills earlier in the month. The local animal rights spokesman allocated precise credit for the action to a guerrilla subgroup of his movement, known as the Justice Department. And justice, he said, had been done on the grounds that "sheep-shearing leaves sheep susceptible and cold as a naked human."

This was not an isolated incident. The Cambridge branch of Boots the Chemists was set alight, and certain research units around Britain have received a new sort of home-made bomb: an exploding mousetrap primed with razor blades. This aims not only to remove the digits of those scientists suspected of animal abuse, but also makes a statement on behalf of mice, so often the choice for laboratory tests.

A flurry, then, of animal rights activity. There is nothing new in this. But the extension of anathema-status to pullovers is new, and it is always interesting to watch how the British deal with such issues, for the British make it part of their self-definition that they are kind to animals when others in Europe, especially southern Europe, are not.

This nationalistic pride was trumpeted during European negotiations about rules for transporting livestock. Even those of us who like a good steak, it seems, are concerned that the ox shall travel to his slaughter in decent comfort.

Gourmets will point out that a well-rested beast tastes better, so this is not pure charity; still, it is true that the British get angry about the ill-treatment of animals, and in that sense the animal rights movement is never entirely marginal.

Whether many wool-wearing people or even woolly liberals will ever feel pity for chilly sheep is doubtful. But translating kindness towards animals into justice for animals is something that we ought to take more seriously than we do, and scientists, with distinguished exceptions, such as James Gail Lovelock, are too quiet about it.

Those activists who resort to pyromania are probably not the sort to engage in rational argument. Yet it is a debate which used to be very much alive in pagan philosophy. Pythagoras, who first articulated vegetarianism in the sixth century BC, was only one of many thinkers who addressed animal rights. But Christian theologians from St Augustine onwards have quelled the issue, being content to accept the animal kingdom as a part of creation subordinate to human needs. According to St Augustine, if we took the commandment "Thou shalt not kill" as an injunction not to slaughter animals, we should also have to prohibit ourselves from uprooting parsnips.

This is what logicians call a slide. To say that one move will lead to another is a familiar method for locking moral progress. Faced with a man who believes that sheep should not be shorn, we might then insist that he abstain from the consumption of honey, milk and eggs - all of which have been regarded as theft by some legally-minded purists - and, like St Augustine, challenge him to wrench a happy parsnip from the earth.

The application of human justice to the animal world hinges, as Richard Dawkins memorably recently said in *Animal Minds and Human Morals* (Duckworth), on how far we consider animals to share in the human capacity for reason.

Charles Darwin believed that there was no human trait which could not be found reflected in one animal or another; but modern scientists, following Aristotle, have been forced to use an exclusion zone based on a technicality. The technicality is that animals have no syntax. It follows that if a creature cannot construct a sentence, then we are at liberty to do with it what we will in the slaughterhouse or the research institute.

Consideration of babies, parrots and chimpanzees will immediately generate worries about the absolute logic of this technicality. Indeed, it is hard to see what relevance it has in a debate which is primarily about pain and the capacity of living things to feel it.

Pythagoras stopped a man beating a dog because he recognised in the dog's yelps the voice of an old friend. Most of us, if we think about it, will admit unease about testing chemicals on beagles. That does not mean, necessarily, that we would not wish chemicals to be tried on rats, nor that we should charitably prefer to wear nylon rather than wool.

What matters is that we give the matter some thought. In that sense, one has to feel grateful for the occasional arson attack. Grass as they are, such actions are not unfounded. They rightly make us think.

Man who gave his life to Churchill

Sir Winston's biographer, Martin Gilbert, talks about his own career

Everything is there, wrote one reviewer, including Churchill's laundry list. But it is not true, says Martin Gilbert, the English historian who holds the record for the world's longest biography.

"No laundry lists appear in any of my volumes," he said. "It was a funny myth, you see. The reviewer had read in a newspaper cutting something that was true - that when I was going through the Churchill archive for 1934 I found a laundry list from Beirut and this alerted me to the fact that he had been in Beirut, which was not in any other biography."

Martin Gilbert started work on Sir Winston Churchill more than 30 years ago. Recruited by Winston's son, Randolph, he assisted with two volumes of narrative and four of documentation. After Randolph's death, he added six more volumes of biography and nine of documents. The tenth companion volume comes out in November, which will bring the grand total of pages to 22,643 and of words to 9,684,000. And there are six volumes still to come - another three or four years' hard work.

Gilbert has just published an entertaining bird's eye view of his literary behemoth, a sort of biographer's autobiography, called *In Search of Churchill*. But it was in search of Churchill's biographer, a much more enigmatic figure, that I panted up Hampstead Hill in north London.

I found him in his word factory, a large study at the back of the house. A fax machine buzzed and clattered in the corner. He seemed cautious but friendly, displaying the mild awkwardness of one who has spent many hours in solitary intellectual confinement.

The greatest living expert has his quirks. To devote almost an entire life to the story of another man, however great, might be counted one of them. Another is maps. Ever since he had to study the Schleswig-Holstein question in his school days, Gilbert has been fascinated by them. He lists 'drawing maps' as his recreation.

It is obvious that Gilbert has suffered from those who use his material to write hostile biographies of Sir Winston, even more from those who twist the facts to suit their revisionist purposes, and from those who accuse him of publishing millions of words without ever arriving at a real portrait.

For a while he evaded my attempts to get him to define his relationship with his subject. Only when I asked if he dreamed about Churchill did he come out of his shell.

"I don't. I don't think I am in any way obsessed by him. But I do get quite agitated if I read something about him which I know to be untrue, and something very negative which I know to be ridiculous."

Examples, he said, included the assertions that Churchill was a rac-

ist, that he was a warmonger, that he was always anti-Semitic, that he was against the miners in the 1926 General Strike. "Any historical figure is very much at the mercy of current fashion, of a clever, knocking attitude, or of some brilliant misportrayal - as I would see it," he said.

To illustrate, he mentioned a recent biography which quoted the phrase 'war attracts my mind' from one of Churchill's letters to his wife Clementine. This was written after watching German army manoeuvres before the first world war, said Gilbert, who promptly recited the full quotation by heart: 'Much as war attracts me, fascinates my mind by its tremendous combination, I can feel here in the midst of arms more than ever before what vile and utter folly and barbarism it all is.'

"The author must have had the full letter because I published it," he added.

Do you write to the papers? "No, I don't write to the papers. I'm not his defence lawyer. I'm not defending him in a court of law. I'm not obliged, when some of these controversial books come out, to defend him or express an opinion."

"Indeed there are things in my books which have become the basis of the attacks on him. If that's recognised, it's pleasing. I don't have to feel agitated because people take a different point of view."

Have you left certain things out because they were interesting to voyeurs but not to historians?

"No. Once or twice it was the exact reverse." He described an occasion during the war when Churchill was drunk and expressing outlandish opinions. "They were not relevant to the conduct of the war, but I felt I had to bring it in because it is part of him. It took place. It was true."

You have been unusually trusted by your witnesses, I said, especially by people wanting to put the record straight. Did you feel handicapped by their trust?

"Not at all. Sometimes it worked the other way. People confided negative things. It's not that I became the repository of Churchill-lovers. Even within the family there were those with very critical views."

Do you yourself have strong feelings about Churchill?

"I suppose I do. I do feel that some of the things that he fought for and worked for, spent his waking hours trying to do, were important."

That he was a great man? And therefore I do get quite upset if the whole of his life's endeavour is undermined. After all, I've spent quite a lot of my life trying to establish what his life's endeavour was."

So what were Churchill's faults? "His tremendous lack of sensitivity to the attitudes of others. I deal with that in every government department he had. He would bully, harse and batter others in his determination to make his point."

General Sir Edward Spears, who



Colin Brown

knew Churchill during the first world war, saw a different fault. It was, he told Gilbert innocently, that Winston was 'too fond of Jews'.

One reviewer said that, as a Jew, I had a natural sympathy for the underdog and was therefore over-swayed by the fact that Churchill was against dictators and expressed sympathy for victims. I think that's too subtle. After all, you don't have to be Jewish to pay heed to the victims of totalitarianism."

I asked Gilbert if he had, after all, written a history rather than a biography.

"That could not be true, he replied. It was a 'life in the round' about Churchill's personality, emotions, feelings and motivation as well as the events in which he played a part."

It was the biographer's job to bring out such things as Churchill's capacity for alienating people. But it was quite wrong for a biographer to deploy evidence - let alone do it in a way to support his own opinion of his subject."

Why did you go to such lengths as to track down the estate agent who sold him Chartwell? Some people would call that obsessive.

"No, no. It's my professional

approach really, my academic training," Gilbert said. He learned his methods from A. J. P. Taylor, his tutor at Oxford, a brilliant exploiter of public archives and private diaries.

Do you think there is such a thing as the truth? "Yes, there is historical truth. But if truth is a building it has two things undermining it: one is perspective, and one is the lack of evidence. I do believe there is such a thing as true history, but it's not necessarily tremendously exciting or revelatory. It's not the history of the conspiracy, the secret."

There must have been times, I said, when you wished you had never started.

The hardest part, he said, was tracking down those who in the 1930s had kept Churchill supplied with government secrets, allowing him to campaign against appeasement. One thing that kept him going throughout was the false picture being painted by others.

In your desire to correct have you not become seen as an apologist?

"People are wrong in saying that somehow I am Churchill's partisan. They are mistaking partisanship which excludes evidence for an

attempt to tell the story as it actually was."

But isn't someone who spends 30 years of his life on a biography bound to be partisan?

"I don't think so. He must have certain feelings which encourage him to get to the bottom of it. Suppose I had done Hitler. I can envisage being just as thorough and not coming out as an apologist of Hitler."

In writing such a book, I suggested Gilbert had put himself at the mercy of reviewers since few non-historians would read it.

He agreed and talked of a "Berlin Wall" between a writer and his readers. Some reviewers, he said, "make you weep with pleasure and delight. With others you think this man is simply not writing about my work." Whichever the case, readers of the work were greatly outnumbered by readers of reviews.

For instance, the historian Philip Ziegler had described the work as "monocular." It wasn't even ill-meant. It was a phrase, quite a clever phrase. I'm not quite sure what it means but it has that slight pejorative thing. So hundreds of thousands of people will say 'Ah, yes, well, that's Gilbert. He's mon-

ocular.' So my portrait in the round, as I believe it to be, somehow doesn't exist in those readers' perceptions."

So you feel you have acquired the opposite label from the one you have earned?

"Yes, but I think you have to step back and say I'm not spending my professional life in order to get a good label or run away from a bad one. It's unfortunate and sometimes it's rather painful but, you know, that's not the object of the exercise."

What will you do next?

"I haven't decided. When I was appointed to succeed Randolph I was about to write the biography of Cripps. But now there is one."

You can pick and choose, can't you?

"I have been so spoilt by archives that I think I could only choose somebody whose archival impact was enormous."

Do you mean Stalin?

Gilbert paused. "No, I think, I'll leave Stalin to friends and colleagues. No, I was thinking of some British figure. But I haven't one in mind."

He smiled. "All suggestions gratefully received."

Continued from page 1

bedrock. The Conservatives have never polled less than 40 per cent of the English vote in a general election. Exclude the inner cities, and at the last election they took more than half the vote across England. Under a similar electoral system to the UK's, France's ruling Gaullists triumphed in last year's French election with the support of a mere 28 per cent of the electorate.

Furthermore, the non-Tory vote is deeply divided - and divided most of all on the issue of opposing the Conservatives. Since the 1950s about half the Liberal vote has typically been second preference Tory: the rise of the Liberals in the last 20 years signifies, above all, a decline of support for Labour among the English electorate.

True, Liberal MPs and activists have typically been closer to Labour than the Tories, but knowing their electorate to be more ambivalent they have been wary of saying so. Even now, with policy divisions between Liberal Democrats and Labour infinitesimally small, the two parties glare at each other across a raised drawbridge.

What, then, of Gray's notion that under Thatcher the Tories converted to a radical variant of mar-

England's one-party state

ket liberalism profoundly offensive to the English middle class?

The Conservatives have, in fact, long been the party of market liberalism. Back in the late 18th century William Pitt's Tory party was committed - until deflected by the wars against revolutionary France - to tax cuts and an assault on tariffs and budget deficits.

The early 19th century saw a struggle between the free market and the landlord consciences of the party. It was resolved in favour of the free marketeers by Sir Robert Peel's repeal of the Corn Laws in 1846. This established the Tories' commitment to minimum levels of taxation and economic intervention consistent with the winning of wars and elections, although trade protectionism continued to be an issue.

Disraeli's "one nation" rhetoric in the 1870s was a smokescreen for a social policy consisting of two essential and enduring principles: the identification of the Tories as the party of all property-owners, not just landlords; and the trumping of whichever social reforms - enacted or likely - of the party's Labour or

Liberal opponents were judged necessary for electoral success.

Under Salisbury that meant upholding Gladstone's extension of the franchise. Under Stanley Baldwin, in the inter-war years, it meant accepting a social safety net. After the second world war it meant preserving the welfare state.

What happened in the 1960s was not a conversion to market liberalism, but a social change within the Tory elite which strengthened its startling discovery that the party had become Britain's natural governing force. A new self-confidence, bolstered by Thatcher's leadership, led the party to espouse its market liberalism more forcefully than it had done for decades.

The social transformation was dramatic. In 1959, the Tory party's 400 MPs included just 10 solicitors, eight accountants and four teachers. "When the call came to me to form a government," recalled Baldwin of his first government in 1923, "one of my first thoughts was that it should be a government of which Harrow should not be ashamed."

Tory cabinets were stuffed with aristocrats and their close relations as late as Harold Macmillan's premiership in the early 1960s. Macmillan's successor was the 14th Earl of Home, and most of the old hri-gade survived under his successor, Edward Heath.

Neither Thatcher (Grantham High) nor Major (Rutlish Grammar) were - or are - much concerned at the shame of Harrow and Eton. Under Thatcher, the sons of teachers, doctors, mainstream professionals and small tradesmen largely replaced the landowners, barristers and wealthy businessmen on the Tory benches in the House of Commons, and followed them into government. The result is a Tory elite more representative of its electorate than ever in the party's history.

For all its new-found radicalism, the new Tory elite has been wary of reining back the public sector. Privatisation and the curbing of trade unions, policies popular or at least inoffensive to middle England, have been the most radical changes of the last decade. By contrast, spend-

ing on state benefits, education and health services has risen broadly in line with the expectations of the Tory middle classes.

Kenneth Clarke (Nottingham High School, Cambridge University), the archetypal modern Tory MP, addressed four-square the question of the middle classes and public spending in a recent lecture which brilliantly exhibited the sensitivity of the modern Tory antenna. "It is idle to think that middle England does not sometimes feel worried," he declared. "Providing a sense of security in an uncertain and changing world has nothing to do with feathering middle England" - which, of course, is just what middle England likes to think.

Indeed, the greatest 1980s catastrophe - the poll tax - occurred because Thatcher was too mindful of the raw prejudices of middle England's home-owning ratepayers.

Clarke put his finger on the nub of Tory vulnerability in the next decade - English middle-class insecurity in the face of employment uncertainties and flat or falling house prices.

There is nothing new in such middle-class anguish, as a brief glance at Agatha Christie's detective novels will confirm. In the past, however, middle England looked to the Tories as a guardian from insecurity - in particular from the evils, real and imagined, of Liberal and Labour governments. Now, middle England appears to be laying the blame for its insecurity at the feet of a Tory government. Just possibly, if the angst persists, a new model Labour party renouncing redistributive socialism and led by an impeccable public schoolboy could become the repository of middle England's anguish in a general election.

It is a paradox that successful Conservative parties are rarely conservative in practice, since without a capacity to adapt to change they could never succeed for long in government. Their conservatism lies in their rhetoric and the emotional loyalties they inspire. For summer reading, Tony Blair could do worse than a biography and collected speeches of Lord Salisbury.

This is adapted from A Conservative Revolution? The Thatcher-Reagan Decade in Perspective, edited by Andrew Adams and Tim Hames, Manchester University Press, £35 hardback, £12.99 paperback.